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East Europe Report

ECONOMIC AND INDUSTRIAL AFFAIRS

No. 2354



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PETROLEUM INDUSTRY DEVELOPMENTS OUTLINED

Joint Baltic Oil Exploration

Warsaw CZASOPISMO GEOGRAFICZNE in Polish No 1, Jan-Mar 82 pp 79-82

[Article by Anna Sobczak, Gdansk: "State of Crude Oil Exploration in Pomerania and the Polish Zone of the Baltic"]

[Text] The discovery of petroleum deposits underneath the bottom of the Baltic was accomplished by geologists from the German Federal Republic in the early 1960s. But the petroleum then sold on the world markets had been too cheap to warrant investing capital in the exploration of insufficiently surveyed Baltic deposits. Once the oil crisis increased, however, the FRG began to exploit the crude petroleum deposits in the Bay of Lubeck. The Germans were followed by the Danes, who commenced exploiting the deposits of crude petroleum and natural gas in the Strait of Denmark and in the region of Bornholm.

The discovery in the Baltic served as an inspiration to the Geological Institute in Warsaw, which commissioned Soviet experts to perform surveys. Accordingly, Soviet teams of geologists conducted seismic surveys in the area of northern Poland and in the Baltic during the years 1964-1965 and in 1967.

As the next stage of geophysical surveys, a methodological seismic-magnetic profile was charted from Rugen to Klaipeda (Memel) in 1975 under the "Intermorgeo" program signed jointly with the USSR and the GDR. These surveys were conducted by the Soviet research ship Novator with partial cooperation of the Polish vessel Kopernik which was adapted to seismic research. On the basis of the conducted geophysical studies, deep drillings performed in northern Poland, and analyses of bottom sediments and Polish and foreign literature, the hypothetical geological structure of the Baltic sea-bottom was determined, which made it possible to infer conclusions on the possible occurrence of certain fuel-energy raw materials. In the littoral zone (near Koszalin) certain bore-holes were found to contain thin strata of hard coal. In view of their deep occurrence (about 3,000 m below the surface), the development of these strata is technically not possible at present; as for the technology of underground gasification, it has not been adequately mastered in Poland. Pockets of occurrence of limited deposits of brown coal also were identified in the area between Koszalin and Gdansk. These deposits are not, however, of commercial importance.

Studies conducted in the last 16 years served to establish that the bottom of the southern Baltic lacks a uniform structure. The geologic structures present west of the meridian of Koszalin differ from those present east of that line. In the eastern zone the Middle Cambrian sandstones were found to contain minor deposits of crude petroleum on the Latvian and Lithuanian coasts, in the region of Kalinin, in Gotland, and also near Zarnowiec and Dabki in the Gdansk Voivodship (the bore-holes in Zarnowiec and Dabki yield some 2 tons of crude petroleum daily).

The most promising are the deposits of crude petroleum in the region of Kaliningrad. There, oil-bearing deposits occur at depths of from 1.9 to 2.3 km. In the neighborhood of Klaipeda the yields of the crude extracted from bore-holes reach 50-60 tons daily and not infrequently as much as 150 tons. The yields of the Latvian deposits are close to those of the Polish ones. On the basis of the available geologic surveys it can be concluded that several horizons of sandstones with properties of the Kaliningrad type, that is, with similar potential yields of crude, may be present in the northeastern part of the Polish Baltic Zone at a depth of about 2 km. That region of the Polish Baltic has been intensively explored since the second quarter of 1980 by the "Petrobaltic" International Baltic Exploration Enterprise.*

"Petrobaltic" operates a prototype drilling platform (30 m high, adapted for drilling to depths reaching nearly 7,000 m), purchased in the Netherlands in 1979. So far it has been possible to perform three deep drillings reaching 6,700 m north of Rozewie at distances of 33.7 and, more recently, 90 km from the shore. Brief press communiques have reported that the first two drillings revealed the presence of traces of crude petroleum at depths of 2,700-2,800 m. At the third and so far last location, the drill reached a stratum of Cambrian sandstone, and natural gas appeared in the drilling equipment. The size and extent of the discovered gas deposit have not so far been thoroughly surveyed, as this still requires many studies and expertises.

The geological structure of the western zone of the Polish Baltic is less known. Even so, geological surveys so far point to the existence there of crude petroleum deposits of unknown size. In Miedzyzdroje 10 years ago the first small deposit in that part of Poland had been identified, and it has yielded one ton of crude daily. On the whole, however, the Miedzyzdroje bore-hole has yielded 36,000 tons of crude. Somewhat later a new crude petroleum deposit had been discovered in Kamien Pomorski at a depth of 2,300 m. In terms of the Polish classification, it is considered a medium-sized deposit. Its reserves are estimated at 2 million tons, and so far 1.5 million tons of crude has been extracted from it. Its daily yield reaches 300 tons of crude and 60 cu m of natural gas (Grabow Well). The crude extracted there is of the high-sulfur type.

*This is a consortium of three countries: Poland, the GDR and the USSR. "Petrobaltic" is a joint stock company operating since 1976. Each member of the consortium contributes one-third of the available capital. The board of this enterprise is located in Gdansk.

Smaller deposits of crude petroleum have been re-discovered in the environs of Miedzystroje as well as Wysoka Kamienska and Blotno. They are led in size by the deposit in Wysoka Kamienna where crude petroleum is extracted at a depth of 3 km under high pressures. That crude, unlike the crude from Kamien, contains no sulfur.

In January 1981 the Blotno deposit in the neighborhood of Nowogrod was discovered. It is to be developed for about 3 months, that being the period for which a permit was granted. This restriction is due to the threat of environmental pollution by the attendant high-sulfur gases.

The extraction of crude petroleum from the bore-holes in Rakow, Wapnica and Petrykozy near Miedzystroje has been resumed, because every ton of crude is of value under Polish conditions and pays off even if additional outlays, such as forcing water into the wells, have to be made. Altogether, about 130,000-137,000 tons of crude petroleum annually (130,000 tons in 1970 and 137,000 tons in 1980) are being extracted in Western Pomerania.

Prospecting for crude petroleum in Central Pomerania was the slowest to begin. Seismic surveys in that region were conducted during 1980-1981 by the Marine and Land Geophysics Enterprise, whose seat is in Torun. These surveys resulted in drafting a plan for further research by the "Geonafita" Plant, comprising a number of deep drillings in the region of Bialogard-Karlino-Biesiekierz and other smaller localities in the Koszalin Voivodship. It is worth noting that already 6 years earlier a bore-hole drilled in the region of Karlin passed through strata of dolomite showing no traces of crude petroleum. Drillings conducted in the region of Biesiekierz in the same period revealed only traces of crude and gas. The resumption of surveys during the years 1980-1981 resulted in identifying an area of about 6-8 sq km running from Bialogard northwestward as promising for drilling. Two deep drillings, "Daszewo 1" and "Bialogard 1," were planned for that area. The operations were commenced from Daszewo owing to its better siting. Daszewo is located on the eastern margin of a ancient marine basin at whose shores should exist, according to geologists, a vast Devonian and Permian coral reef zone overlying an accumulation of crude petroleum. Thus drillings in that area to a depth of 4,100 m were decided upon. The purpose of the drillings was to investigate the gas-bearing capacity of the horizon in the Carbonian and red sandstone formations as well as, at the same time, the thickness of the main dolomite stratum occurring there at a depth of about 2,850 m. However, owing to relative heights above sea level reaching 150 m, the main dolomite strata at the site of the "Daszewo 1" bore-hole were located 71 m higher, i.e. at a depth of 2,779 m. That bore-hole happened to lie in the zone of rifts and crevices in an impermeable dolomite, or it may have been in the area of a so-called barrier reef which, as noted above, may have developed around an ancient sea. The specific geologic structure of that region tends, moreover, to high pressures. At the moment the drill penetrated the gas- and oil-bearing stratum, a violent explosion of gas and crude took place. The explosion may have happened owing to instances of neglect by workers, as manifested in failure to observe safety rules (probably owing to a lighted cigarette).

The nature of the eruption and the course of the fire confirmed the earlier view that the crude and gas reservoir reached at the "Daszewo 1" well must be porous and permeable, because of the attendant intense influx characteristic of main dolomite.

It is difficult to estimate the resources in the region of Daszewo near Koszalin, but this is probably a small deposit, one of the several discovered in recent years in Pomerania.

In the region of Karlin at present only one bore-hole, R-1 K, located about 300 m from "Daszewo 1," is in operation. It yields 120-150 tons of crude daily, which means that its potential annual yield may be about 46,000 tons.

In the first half of July 1981 the Wielkopolska Petroleum and Gas Industry Works took over the bore-hole "Daszewo 1," which is being readied for exploitation, because the principles of economical management necessitate saving the deposit's gas which, through its natural pressure, causes the crude to flow. The extraction of crude at present from "Daszewo 1" would, in the opinion of Engineer Jerzy Szajna, an expert at the Wielkopolska Petroleum and Gas Industry Works, reduce yield to 30 percent. Moreover, according to the same expert, there is a chance that the deposit destroyed during the eruption would regenerate itself autonomously. Extraction from the "Daszewo 1" well will be commenced in 1982.

The oil well in Karlin was recently expanded by drilling a third bore-hole, the E-2K, in which a so-called oil-bearing horizon was discovered. After all three oil wells in the Karlin Deposit begin to be extracted, it is expected to supply the country with about 300,000 tons of crude petroleum annually; this is an amount equal to present-day extraction in Poland. The drilling of the bore-holes R-3K and R-4K in the region of Karlin is being continued; in these bore-holes no crude was found to occur at the planned depth and hence drilling operations are being continued at depths of below 3,000 m with the object of thoroughly surveying the geologic strata underlying the Karlin Deposit. Perhaps one of these drillings will penetrate below the entire deposit and reach the promising level of 4,100 m. Until this is accomplished there is no reason to claim that "big oil" is supposedly a mere pipe-dream.

Synthetic Crude Oil Development

Gdansk DZIENNIK BALTYCKI in Polish 19 Oct 82 p 3

[Article by Vyacheslav Batrakov; "How Will We Replace Crude Petroleum?"; passages enclosed in slantlines printed in boldface in source]

[Text] /Soviet scientists are working energetically on industrial methods for the rarefaction of liquid and solid fossil fuels--bitumens, coal, shale. The first pilot industrial facilities for the production of synthetic crude oil have already arisen./

Such synthetic oil should last mankind many years after the last ton of crude oil is extracted from the Earth's bowels. The reserves of bitumen are fivefold as high as those of crude petroleum, while the reserves of coal and shale are greater by a factor of 100 and 1,000,000 times, respectively.

The problems entailed in the utilization of bitumens ensue from their extremely high viscosity and the fact that they do not occur in pure form but saturate sandstones occurring deep beneath the Earth's surface.

/So now a simple solution has been found: part of the bitumens would be burned under the Earth's surface with the aid of pumped-in compressed air. The heat then released will warm the stratum to the needed temperature and the combustion products will generate an excess pressure expelling the rarefied bitumens onto the surface through operating shafts./

This extraction method subjects the bitumen while still underground to deep chemical changes which as a result enrich it with light hydrocarbons, including benzene. Following fairly simple processing, heavy fuel oil, oils, asphalt and flammable gas can also be extracted from the bitumen. A pilot-industrial facility based on this method is already operating in the region of the Mordovo-Karmal bitumen deposit.

The deposits of shale can be considered inexhaustible, properly speaking. But their utilization, and especially their chemical processing, entails considerable difficulties. Even the best shales (such as those occurring, e.g. in the Estonian SSR) contain at most 10-30 percent of useful components. This means that their combustion results in great quantities of ash that is environmentally noxious.

/But the ash too can be treated as a valuable raw material. It is suitable for, e.g. liming acid soils and can also be processed into building materials./

Although shale is the principal reserve of fossil fuels, for the near future it will not be the principal source of energy and synthetic crude. All hopes at present are placed in the utilization of coal, whose resources should last mankind for hundreds if not thousands of years.

How does, properly speaking, coal differ from crude petroleum? Primarily because it contains little hydrogen but includes admixtures of nitrogen compounds, oxygen and sulfur, as well as mineral substances. Thus if coal is saturated with hydrogen, its chemical composition will be close to that of crude petroleum, while at the same time all unnecessary admixtures can be eliminated.

The technological application of this process is not easy. Even now that the prices of crude petroleum have soared and the technology of obtaining it from coal has been streamlined, synthetic crude is still more expensive than natural. But in the near future the production of synthetic crude will become more advantageous than its extraction from the diminishing deposits. Therefore, scientists in technologically developed countries, even those with considerable resources of the "black gold," are working to further refine the technology of the rarefaction of coal.

At the moment, experimental apparatus for processing coal into crude is being operated at the Institute of Fossil Fuels and a small facility is being built at the Belkovskaya Mine near Moscow along with the largest facility of its kind at the Krasnoyarsk Hydroelectric Power Plant.

The best prospects so far as the production of synthetic crude is concerned face the brown coal of the Kansk-Achinsk Basin. Mined there by the open-strip method, that coal will be very cheap, costing only one-tenth as much as Donbas coal. That is, the production of synthetic crude from that brown coal will also become much cheaper.

The staff of the Krzyzanowski Energy Institute have developed an original facility for processing Kansk-Achinsk brown coal. The crushed coal is heated in a fluidized-bed furnace and turned into gas and tar which last can be then processed into liquid fuel and a valuable raw material for organic synthesis.

Oil-Field Transformer Stations

Wroclaw GAZETA ROBOTNICZA in Polish 10 Mar 82 p 4

[Article by (A. Kil.): "From Wroclaw to the Oilfields of the USSR: Half a Thousand Transformer Stations"]

[Text] (Own information.) The personnel of the Wroclaw "Elektromontaz" Enterprise, which specializes in the manufacture of transformer stations, are winning increasing recognition on foreign markets. This is demonstrated by the increasing number of new contracts. This year, customers in the Soviet Union will be provided with 500 complete stations for powering auxiliary stations on oilfields. The assembling of the first 70 stations has just been completed and part of them has already been shipped to the USSR.

"Elektromontaz" will sell to the same customers 30 complete pumps as well as various transformer-station equipment along with switching systems that will be operated in industrial plants, especially chemical ones. The value of exports to the Soviet Union will exceed US\$200 million this year.

A total of 34 stations will be supplied to the GDR this year. "Elektromontaz" will also build six stations with switching systems which the Wroclaw ELWRO Plant will install in lime plants in Iraq. Other stations will be shipped to Yugoslavia and Czechoslovakia.

Director Eugeniusz Kowalik said: "We also are short of materials, chiefly of lacquers from the Cieszyn Factory, which demands that we reimburse it for its foreign-exchange input in dollars. Other co-producers, too, are beginning to respond in this manner. Hence we requested the minister of foreign trade for permission to receive foreign-exchange allowances. After all, the exports to Iraq alone will earn us about US\$800,000."

1386
CSO: 2600/103

GROWING CEMA DEBTS SEEN AFFECTING CREDIT RATING

Zuerich NEUE ZUERCHER ZEITUNG in German 23 Nov 82 p 15

[Analysis signed by 'oo': "Precarious Financial Situation in CEMA: Growing Mountains of Debts--Shaken Credit Rating"]

[Text] The countries of CEMA are currently experiencing their worst economic and fiscal crisis. It is no wonder that the confidence of Western banks in the credit standing of the "red economic community" has been badly shaken: Poland and Romania are no longer able to make their payments and other East bloc countries are rumored to be candidates for debt conversion. The scale of CEMA area indebtedness continues to mount steadily--from a 1970 level of a net 6 billion dollars, it rose by 1976 to 39 billion with Western experts estimating the total of CEMA debt to have reached almost 80 billion dollars by the end of 1981. In addition, Yugoslavia must also be counted, which, though only an associate member of CEMA, had run up Western debts to the tune of 18 billion dollars by the end of 1981. The present level of Western indebtedness incurred by European communist countries can be estimated to have exceeded 100 billion dollars.

The other three CEMA members--Mongolia, Cuba and Vietnam--are also heavily in debt. Castro's sugar island has already had to take steps to renegotiate its outstanding loans. The first communist country forced to renegotiate its debt burden was North Korea, as early as the beginning of the 1970's. Though North Korea is not a member of CEMA, it has been successful in playing a see-saw game, oscillating between Moscow and Peking. Its debt renegotiation appears to have done it little good, however, as Pyongyang has so far not even been able to meet its current interest payments. Nonetheless, North Korea continues to buy from the West on cash terms.

The highly respected Wharton Econometric Forecasting Associates organization estimates the indebtedness of the seven European CEMA countries to have reached 123 to 140 billion dollars in 1981, with Yugoslavia's Western debts estimated at 25 to 28 billion dollars, bringing the total indebtedness of the European communist countries--excluding Albania, whose constitution prohibits foreign borrowing--to between 148 and 168 billion dollars. This figure has been disputed by some Western experts since it is already becoming more difficult for CEMA countries to negotiate credits in the West. For example, in 1979 CEMA countries borrowed some 3.7 billion dollars on the European money market while in 1981, according to the findings of the OECD, only 1.5 billion dollars were borrowed, with a scant 150 million dollars being raised in the fourth quarter of that year. According to the most recent report of the Bank for International

Settlements, Western banks had reduced their scale of lending to the East by 2.6 billion dollars in the first quarter of 1982, dropping it further in the second quarter by an additional 700 million dollars.

Many bankers are of the opinion that in the future CEMA countries will be hard-pressed to find non-earmarked financing credit. Loans earmarked for specific projects, on the other hand, may become more significant, with the possibility of several such projects being packaged in one loan.

The most important "finance reform" of the East bloc will continue to be compensation or swap transactions. There are estimates which claim that as much as 40 to 45 percent of East bloc imports (including Yugoslavia's) from the West are already being financed by compulsory compensation exports to the countries of the OECD. This figure naturally includes such major compensation deals as natural gas in return for pipeline equipment. While such transactions do not increase the debt level, they do require intermediate financing to span the time gap between imports and exports. In a number of instances it has even been possible to shift the intermediate financing to the shoulders of the Western firm. Since it is hardly to be assumed that the CEMA countries can do without imports from the West, they will look to press for more such swap transactions, especially so since their own exports cannot be made competitive on world markets.

Table 1: CEMA Net Indebtedness as a Percentage of Annual Exports

	Indebtedness at end of 1981 (in billions of dollars) (a)	Exports to the West, 1981 (in billions of dollars) (b)	a:b in %
Bulgaria	2.8	1.9	147
Czechoslovakia	3.5	2.9	121
GDR	13.0	4.8	271
Poland	22.0	4.3	511
Romania	10.8	4.7	229
Hungary	7.7	2.7	285
Smaller			
CEMA countries	59.6	21.3	280
USSR	15.5	24.3	63
CEMA banks	3.9	-	-
CEMA (Europe)	79.0	45.6	173
Yugoslavia	18.0	2.8	643
CEMA (Europe) and Yugoslavia	97.0		

Source: Wharton Econometric Forecasting Associates (indebtedness); Vienna Institute for International Economic Comparisons (foreign trade statistics).

It appears that even last year foreign trade between the "communists" and the "capitalists" had dropped only slightly in real terms, although the "red" fiscal crisis had already become manifest. Thus, CEMA country exports to the West rose a nominal 4 percent to 45.8 billion dollars, while imports rose by 4.3 percent to 49.7 billion dollars. The deficit in the CEMA balance of trade with the West stood, in 1981, at 3.9 billion dollars, compared with 3 billion in 1980, 6.5 billion in 1979 and 9.9 billion dollars in 1978. These figures are based upon data of the Vienna Institute for International Economic Comparisons, which uses Eastern bloc statistics. When computations are undertaken using Western statistics, quite different results are obtained.

As seen from Table 1, Poland, Hungary, the GDR, Yugoslavia and Rumania all have an above average indebtedness since they had to expend between 2.29 and 6.43 billion dollars for the repayment of their total debt. On the other hand, the USSR, Czechoslovakia and Bulgaria all indicate a good position. What is also interesting is the relationship of debt service to annual returns from exports. In international terms, a level of up to 25 percent is regarded as acceptable. As seen from Table 2, only the USSR and Bulgaria have managed to stay below this magic threshold.

Table 2: CEMA Debt Service 1981¹

Bulgaria	20%
Czechoslovakia	25%
GDR	40%
Poland	91%
Romania	38%
USSR	7%
Hungary	46%
Yugoslavia	24%

¹ Relationship of repayments to proceeds from exports of goods and services.
Source: Wharton Econometric Forecasting Associates.

A list of country ratings published in the U.S. periodical INSTITUTIONAL INVESTOR, based on an evaluation by 100 major banks, indicates that the credit ratings of East bloc countries have deteriorated. The USSR, with 66.5 points out of a maximum of 100, is in 26th place internationally. Hungary ranks 42nd, ahead of the GDR's ranking of 45th, Czechoslovakia with 46, Bulgaria 58th, Yugoslavia 51st, Romania 73rd and Poland in 93rd place. North Korea places last, in 105th place. The weak positions held by Czechoslovakia and Bulgaria indicate that the extent of indebtedness is not critical in the determination of their credit ratings.

In this connection the intra-CEMA trade and the mutual indebtedness of the CEMA countries also plays an important role. As a result of sharply increased energy costs, the USSR has achieved large trade balance surpluses with its "little brothers" (with the exception of Romania, which has bought only small amounts of oil and natural gas from the Soviet Union). Over the past 3 years (until the end of 1981), Moscow's foreign trade surplus had reached an estimated 10.9 billion dollars. Of this amount, some 4.3 billion can be attributed to Poland, 3.5 billion to the GDR, 1.7 to Bulgaria, 1 billion to Czechoslovakia and 976 million dollars to Hungary. Romania alone achieved its own surplus of 688 million dollars. Moscow was obliged to cover its trade surplus with CEMA members by the extension of credits. The USSR has also been able to achieve a high trade balance surplus

through its dealings with developing countries which frequently have to be covered in hard currency, a fact which has in turn definitely been a boost to Moscow's creditworthiness.

There are variations among several of the CEMA countries' capacity for payment. Hungary, which had found itself in a difficult economic squeeze, may now be over the hump, having received a loan from the Bank for International Settlements and the promise of help from the International Monetary Fund. The GDR, on the other hand, presents a real puzzle. The country's credit rating has been badly shaken. To help it get back on its feet, long-term supplier credits have been asked for, with which its heavily reduced imports can be financed. Export revenues can then be employed for debt servicing. A number of CEMA countries have also been late in meeting debt payments, such as Romania and, in some instances, Bulgaria. Whether Yugoslavia will succeed in mastering its payment crisis without rolling over its debts has become increasingly doubtful following the resistance on the part of Western banks to the granting of a new 500 million dollar credit.

The CEMA member countries have fallen into debt on this scale because of their hopes in past years of being able to modernize their economies with Western aid, though without having to institute overdue economic reforms. This hope has now been proven a failure. For one, the necessity of such reforms has become more and more apparent because only by this means can the efficiency of their economies be improved. At the same time, they have not succeeded in expanding their export capabilities to the degree that they had anticipated nor found themselves able to market high quality products in the West, the sale of which would enable them to cover their debt service charges. The recession and high interest rates in the West have contributed further to shrinking their export opportunities still further. And finally, the umbrella theory, i.e. the hope that Moscow, in the event of other CEMA countries' experiencing payment difficulties, would backstop their overdue loans and interest payments, has turned out to have been little more than wishful thinking. In Moscow's eyes, each country is responsible for its own credits.

9878

CSO: 2300/73

BRIEFS

YUGOSLAV EXPORTS TO ALBANIA—Representatives of the Skopje organization Interimpeks-Promet and Makinaimport from Tirana have signed a contract for the export to Albania of Yugoslav sanitary equipment worth more than 1.3 million dollars. The agreement was signed recently in Tirana and will be implemented next year. The Pobeda organization from Novi Sad and the Istra organization from Kule will export their products (amounting to 500,000 dollars) to Albania and the Sarajevo firm, Energoinvest, will export about 860,000 dollars worth of its products to Albania. [Text] [Ljubljana DELO in Slovenian 2 Dec 82 p 2]

CSO: 2800/85

GERLE ADDRESSES ASSEMBLY CHAMBER ON ENERGY

AU251433 Prague RUDE PRAVO in Czech 21 Oct 82 pp 1, 2

["From the speech by CSSR Deputy Premier Ladislav Gerle" at the second meeting of the CSSR Federal Assembly's Chamber of People' held in Prague on 20 October]

[Text] The safeguarding of primary energy resources essential for the development of our socialist society is becoming one of the most complicated tasks. For this reason, we regard a more economical use of fuels and power as one of the most important tasks facing our economy.

Czechoslovakia has a very unfavorable structure of fuel and energy resources, marked by a high proportion of solid fuels, which account for almost two-thirds of total consumption. These are made up, above all, of domestic coal resources. Roughly 40 percent of the primary resources are covered by imports, especially of crude oil, natural gas as well as electricity, which are clean [uslechtilé] forms of energy.

In the eighties and nineties, the domestic extraction of solid fuels will remain the basic primary energy resource. At all levels, including the government, a number of measures have been adopted to ensure the planned coal production, especially in the North Bohemia brown coal basin. They concern deliveries of new complete investment units, raising the reliability of the mining and transport equipment and ensuring the needed numbers of qualified manpower. Last year alone, the number of employees in the North Bohemia brown coal basin increased by 1,300, of whom 1,160 qualified people work directly in the collieries. The growing tendency of delays in capital investment construction and general overhauls and reconstructions of the giant machinery has also been stopped. Additional means, exceeding the original plan, have been earmarked this year to obtain auxiliary mechanisms such as bulldozers, loading machines and so forth.

In spite of these measures, the shortfall of the North Bohemia brown coal basin amounts to 1.5 million tons since the beginning of the year, and the basin will not even reach the extraction level of 1981.

The progress in removing the overburden is not in keeping with the progress in extraction. Despite the greater number of giant machinery available, this year we are achieving only the level of the first years of the Sixth 5-Year Plan as regards removing the overburden. The recoverable coal reserves are thus declining.

In view of the situation in coal mining, throughout this year it has been necessary to apply operative measures in coal distribution. Priority in the deliveries of coal for power generation has been given to electric powerplants, and graded brown coal, in harmony with the plan, has been used primarily for supplying the domestic market.

The operative method of distributing brown coal will have to be maintained throughout the 1982-83 winter period. Its objective is to create by the end of the year reserves of 2.5 million tons of brown and bituminous coal at the dumps of electric powerplants run by the Ministry of Fuels and Power.

Notwithstanding all the aforementioned difficulties, the planned annual deliveries of brown coal of the domestic market will be fully ensured. However, in this connection it is necessary to point out that it is not possible any longer to meet demands for this fuel exceeding, as is sometimes the case, 1.2 tons per housing unit.

As regards the supplies of bituminous coal, there are no serious shortcomings. The deliveries of bituminous coal from Poland and the Soviet Union for power generation will be overfulfilled. Moreover, from Poland we will import roughly 30,000 tons of graded coal exclusive for the needs of the population. A certain portion of the coke production, the production plan for which will be overfulfilled, is also destined for the population.

The supply of heating gasses has been free of troubles throughout the year. This was, above all, due to the regular deliveries of Soviet natural gas and the good technical preparedness of our own extraction, production and conveyance facilities.

The underground reservoirs contain reserves of 2 billion cubic meters of natural gas for the forthcoming winter period.

In keeping with the government's measures of last November, there has been a substantial reduction in the consumption of liquid fuels and propellants. Following the price increase for heating oil, this year — compared with the same period last year — the population's consumption has dropped 16 percent. The population's consumption of gasoline has dropped about 12 percent.

The available crude oil must be used, primarily, to develop our chemical industry and to expediently motorize the national economy.

The creation of the necessary fuel stocks in the electric powerplants by the end of this year will be decisive for troublefree electricity supplies in the first quarter of 1983. We consider it, therefore, essential to take certain measures before the end of the year toward reducing electricity consumption by 1 to 2.5 percent, depending on the assessment of the plan fulfillment.

Despite the fact that the increase in the domestic consumption of primary energy resources will be substantially lower than in past decades, we must maintain the planned speed as regards the development of electricity production. The solution lies in the construction of nuclear powerplants.

Last winter (1981-82) the V1 nuclear powerplant at Jaslovske Bohunice was the absolutely most reliable source of electricity. Two additional 440 megawatt units are fully under construction at Jaslovske Bohunice and four at Dukovany. The construction of four units at Mochovce has also started. Everything is ready to begin the construction of the Temelin nuclear powerplant, which will have 1,000 megawatt units.

To launch six 440 megawatt units by 1985 and ensure by that time the production of 15 billion kilowatt hours in nuclear powerplants, many complicated tasks still remain to be finally resolved.

The construction preparedness at the site of the first units of the V2 nuclear powerplant at Jaslovske Bohunice and at Dukovany is between 6 months and 1 year behind schedule. The suppliers of the equipment have not made use of this delay to prepare in good time the delivery of auxiliary and supplementary materials. They also have not prepared enough manpower for the impending concurrently running assembly work. At both construction sites there is a total of about 10,000 builders and 4,000-5,000 machinists and electricians. However, on Saturdays and Sundays hardly a few hundred people work, and justified doubts can be expressed as to the utilization of the Monday and Friday shifts. The annual production of an electric powerplant with four 440 megawatt units is about 10 billion kilowatt hours, which is equivalent to the import of 3 million tons of crude oil or the extraction of 10 million tons of coal for power generation. In the North Bohemia brown coal basin, about which I have spoken critically, some 5,000 workers are employed on Saturdays and Sundays throughout the year to ensure at least the absolutely essential needs of the economy.

In the past 10 years, the demands that the creation of the national income places on energy consumption have declined up to 18 percent. Some easy-to-tap resources and potentials as well as some one-time, nonrecurring streamlining measures have been used to bring this about. However, at the same time there has been a substantial increase in the consumption of nonproduction purposes.

As regards general relative fuel and power savings, in the last 10 years we have registered a favorable development standing comparison with advanced countries. Yet this concerns just the relative development because, in absolute terms, the creation of our national income still places higher demands on energy consumption than in advanced industrial countries.

By 1985, compared with 1980, savings of primary resources ensured by means of technical and organizational measures should amount to 12.2 tons of standard fuel. Aside from this, we will bring about some structural changes in the production sphere which will produce final savings of an additional 2.35 million tons of standard fuel.

The first subprogram [dilci program] — accountable for its fulfillment is the Ministry of Fuels and Power — concerns the reduction of losses in refining, transforming and conveying fuels and power. By the end of the Seventh 5-Year Plan, savings in this area should amount to 2.4 million tons of standard fuel.

The key projects include switching designated condensing [kondenzacni] powerplants into thermal plants supplying the industry and the population with heat. Heat generation is currently among the bottlenecks of the Seventh 5-Year Plan.

Some 10,000 boilers are installed in Czechoslovakia, almost one-third of which are more than 30 years old. These often technically obsolete boilers with low effectiveness have in the past 10 years been replaced mostly by appliances burning heating oil or natural gas. In view of our fuel-energy balance, this path is no longer feasible. The only fuel available for new boilers is brown coal with a heat value of around 2,400 kilocalories (10,000 joules) per kilogram, with a high proportion of ashes and coal dust.

The CSSR Government's Commission for Fuel and Power Supplies has taken steps to speed up the development of small grate boilers for such fuel. In connection with modernizing the boiler inventory, we are intensively dealing with the development of boilers with a fluid furnace [fluidni ohniste].

The second subprogram concerns the reduction of energy intensiveness in metallurgy and is aimed at achieving savings of 2.7 million tons [of standard fuel].

The energy intensiveness of steel production — metallurgical production consumes about 20 percent of our primary energy resources — has declined about 30 percent in the past 15 years. The share of steel production in oxygen convertors and the share of continuous casting, technologies which are advantageous from the viewpoint of energy consumption, is still low.

The Sixth 5-Year Plan included a greater number of such effective projects (continuous casting in VSZ [East Slovak iron works in Kosice], SONP [United Steelworks National Enterprise in Kladno] and SZ [Sverma iron works in Podbrezova] as well as a converter steel plant in Trinec) than is the case in the plan for the seventh 5-year period. This is caused not only by the limit proposed on investments but also by lack of technical clarity and lack of preparedness of the part of the steel mills.

The better utilization of scrap metal and the introduction of organizational measures aimed at lowering energy losses in the technological flow of metallurgical production represent a quickly accessible source of energy savings that places a low demand on resources (the savings is 88 percent with regard to copper, 95 percent with aluminum and 55 percent with iron). Increasing the quality of metallurgical products, which leads to decreasing their consumption, is of fundamental importance.

The third subprogram covers reduction of the energy-intensiveness of engineering production and of the electrotechnical industry. In these branches savings are to reach a total of 1.3 million tons of standard fuel.

The extraordinary importance of the aforementioned sectors as regards the streamlining of the consumption of fuels and energy lies in the manufacture of machinery and equipment for consumer sectors and the nonproduction sphere, machinery and equipment consisting of engineering and electrotechnical products and energy-efficient appliances, such as boilers, ovens, transformers, electric motors, ventilators, blowers, pumps and so forth, as well as household appliances, including first class lighting fixtures. Into this sphere also falls the production of equipment that utilizes nontraditional sources of energy, such as recuperators, exchangers, solar energy collectors, thermal pumps, equipment for producing biogas and similar products. The production of modern equipment to utilize the energy potential of small streams is also of great importance.

An irreplaceable role in streamlining the consumption of fuels and energy is played by the electronics industry, which must supply efficient semiconductor technology for traction motors as well as for stationary motors. It must also develop the production and utilization of the measuring and regulatory technology and microelectronics.

The fourth subprogram is oriented toward the streamlining of consumption in the chemical and consumer industries, by the end of the Seventh 5-Year Plan an annual saving of about 3 million tons of standard fuel is to be achieved in this sphere.

The basis of the fifth subprogram is to achieve a savings in the production of building materials and in the building industry in 1985 of fuels and energy equivalent to 750,000 tons of standard fuel.

The actions, which will conserve fuels and energy if realized, are oriented towards modernizing and intensifying technology with a lower energy consumption, toward reconstructing furnaces, drying facilities and boilers, and toward utilizing waste heat.

In addition to conservation in one's own sectors, there will also be actions which will ensure reductions in the consumption of fuels and energy in other sectors, totaling almost 1 million tons of standard fuel annually.

The sixth subprogram covers the sphere of agriculture and the food industry. In 1985, 880,000 tons of standard fuel are to be saved in this sector.

The most important streamlining measures are oriented toward utilizing waste heat from the compressor stations of the transit gas pipeline for agricultural-food complexes, for bringing about innovations in hot-air drying facilities and for utilizing secondary sources of energy, for example solar energy.

The elaboration of the 1983 draft plan has been negatively affected by inadequately ensured deliveries of machinery on the part of suppliers. The question of the economic effectiveness of the installation of solar energy collectors must also be resolved.

The seventh subprogram covers the reduction of the transportation sector's demands for fuel and energy. By the end of the Seventh 5-Year Plan, 420,000 tons of standard fuel should be saved in this sphere annually. From this volume the transportation sector will save about 230,000 tons; the rest will be saved by rerouting the road freight transport to the less energy-intensive railroad and to river transport, by cutting down enterprise transportation and by savings in public transport.

Raising the effectiveness of how the primary sources of energy in the nonproduction sphere are utilized makes up the eighth state subprogram which stipulates 1985 savings amounting to 1.8 million tons of standard fuel.

Owing to the delays in putting on stream the production and utilization of measuring and regulatory technology and advanced light sources low in energy consumption, the originally determined task has been lowered to 1.4 million tons.

The most decisive measure for achieving the objectives of this subprogram is, above all, to reduce the heat consumption per average apartment. What is involved here is improving the thermal-insulatory properties as well as regulating and measuring energy consumption.

Our households consume a considerable quantity of fuels and energy in various forms. For example, an automobile driven 10,000 km annually consumes about 1 ton of standard fuel in the form of gasoline. Therefore, the new mandatory limit for the consumption of the new type of Skoda automobiles to be manufactured after 1985 has been set at 5.5 liters per 100 km at 90 km per hour.

Systematically innovating electrical appliances while at the same time raising their utility value is another way of saving electricity in our households. In this sense, price-setting authorities have carried out the differentiation of prices of electrical appliances with respect to their varying energy-intensiveness.

The population's consumption of fuels and energy has been subsidized by the state this year to the tune of about Kcs3.5 billion, and in 1985 it will be Kcs 5 billion. Price measures also are being employed to stimulate metals and raw and other materials. When a manufacturer develops a product which saves fuels and energy in the hands of a consumer, the wholesale price of such a product could be raised 20 percent over the previously manufactured product having a higher energy consumption.

The fundamental prerequisite for prices to have an effective impact on thriftiness in the consumption of fuels and raw and other materials is for them to correctly reflect procurement costs. Therefore, the wholesale prices of fuel-energy sources and basic raw materials are being adapted to the developments in costs connected with their import and the domestic production costs.

Despite the fact that we achieved better results in the past period as regards energy-efficiency when creating our national income, expenditures have increased as a consequence of higher energy costs. From this point of view, the economic demands on the creation of the national income have been increasing on an average by 5.4 percent annually over the past decade.

Last year, the individual sectors and regional national committees implemented streamlining actions which saved almost 2.5 million tons of standard fuel in the course of the year, thus fulfilling the prescribed task.

Considerably more complex was the situation as regards the preparation of the executive state plan for 1982. Despite the fact that the overall task to ensure about 2.4 million tons of standard fuel was broken down, the streamlining actions in the first half-year were implemented to the extent that the annual plan was fulfilled by 44 percent. However, specifically controlled actions have only a share of 275,000 tons of standard fuel in overall saving, which in this category constitutes less than 28 percent of the annual plan.

We have also come across a similar situation within the framework of preparing the 1983 executive plan. Although the overall tasks aimed at ensuring savings of 2.44 million tons of standard fuel set by a directive are being ensured, the structure of the streamlining measures markedly differs from the original plans. The share of specific investment actions has substantially shrunk, mainly because it was not ensured on the part of suppliers.

The characteristic feature of our practices in streamlining the handling of fuels and energy is, to a certain extent, the fact that trifling measures predominate and some fundamental plans are being shelved because of a lack of investment means or because they are not ensured on the part of suppliers. A government decree has decided to peg investments to how economically metals, fuels and energy are handled.

Also convincing is the economic effectiveness, for example, of the streamlining program in metallurgy, where the costs of saving 1 ton of standard fuel (about Kcs 3,600) are 50 percent or more lower than the procurement price of coke or heating oils. It is evidently cheaper to invest in streamlining measures to save fuels and energy than to increase the extraction of fuels. A streamlining program must become the starting point for the creation of a plan, but it also must be ensured by the plan. However, we continue coming across the view that someone — the center, the planning commission, the government — must ensure the energy production. The basic intentions must certainly be centrally directed. In the Seventh 5-year Plan almost 40 percent of the overall investments are destined for industrial sectors to develop the fuel-energy base.

To fulfill the tasks determined by the Seventh 5-Year Plan and directly linked to the state goal-oriented program — to streamline the consumption of fuels and energy — one must demand consistent and systematic care from the ranking personnel of all levels of management. In this sense, however, one has to organize the creative activity of the working in the scientific-technical sphere in order to ensure and exceed the tasks aimed at conserving fuels and energy.

An important impetus in this respect is also the resolution of the 10th All-Trade Union Congress. Exceeding the conservation of fuels and energy by 0.5 percent above the task determined by the state goal-oriented program No 2 means the realization in the national economy during the remaining years of the Seventh 5-Year Plan of further streamlining actions representing a final saving of 2 million tons of standard fuel. This means that in individual years one will have to exceed the fulfillment of the tasks of the goal-oriented program by about a half-million tons of standard fuel annually. What is involved is an extraordinarily demanding task, the ensuring of which should become the business of all of us.

CSO: 2400/94

BANK REPORTS ON SLACKENING INVESTMENT ACTIVITY

Budapest FIGYELO in Hungarian No 46, 18 Nov 82 p 20

[State Development Bank report: "Slowly Moderating Investment Activity"]

[Text] In the interest of a further reduction of accumulation, the national economic plan prescribed 178-180 billion forints for investment in 1982. By the end of September the managing organs had spent 106 billion forints of this. This sum is the same as 1 year earlier--instead of the 2-3 percent moderation taken into account in the plan.

Large Investments

Large state investments moderated more than planned; in the enterprise sphere, although the dynamic of payments decreased in the latter quarter, investment expenditures in the three quarters as a whole were still larger than in the same period of the preceding year instead of being reduced as prescribed. The reduction which took place in the third quarter was connected primarily with a gradual moderation of investment expenditures being realized purely from the enterprises' own resources. Preliminary investment data for October indicate a further moderation of investment activity.

The 13.2 billion forints paid out by the end of September for large investments was less than 1 year ago by 14 percent (by 2.2 billion forints). In October, however, one could experience a significant upswing. Even so the shortfall which could be experienced exceeds by a good bit the 1 percent moderation calculated in the annual national economic plan in comparison to actual 1981 expenditures. Of determining significance in this regard is the delay at the Paks nuclear power plant, although a shortfall could be experienced at a number of the large investments under way.

The number of large investments under way decreased from 23 at the beginning of the year to 19--as a result of the completion in the first half of the year of the Szekszard Meat Combine, the Budapest Trash Burning Works, the Budapest Sport Hall and the maintenance of level investment at the Csapel Pipe Factory. On the basis of their present status one can expect completion of two more investments by the end of the year--the Bito II and Halimba III bauxite mines--and of the investments planned for completion this year only the finishing work at the Szekesfehervar Light Metal Works, the semi-finished goods development, will go over to the end of 1983.

Of the large investments under way in the third quarter the 920,000 ton capacity of the combined steel works at the Lenin Metallurgical Works was completed, 3 months ahead of schedule. As a result of outstanding organization the widening of the Arpad Bridge and the reconstruction of Florian Square are progressing very well; the tasks scheduled for this year are being carried out perfectly. The new southern bridge deck was opened to traffic at the end of September, 2 weeks ahead of schedule, and the Florian Square highway overpass was handed over in October. There is a realistic possibility that the large investment will be completed within the approved guidelines and before the prescribed time limit.

Targeted Programs

The 16.0 billion forints paid out for targeted program investments exceeds the base time fulfillment by 5 percent. The national economic plan reckoned with a similar growth this year and this was approached for the first time this year at the end of the third quarter--as a result of constantly increased payments.

Central housing construction expenditures make up more than 40 percent of the targeted program investment expenditures. The 6.7 billion forints paid out by the end of September for housing construction are less than last year by 5 percent. The number of state housing units under construction increased, but this meant that there were more housing starts than last year while the rate of completion decreased.

More than last year, by nearly 30 percent, was turned to development of hydrocarbon prospecting, storage and distribution--in harmony with high level decisions taken to improve the situation of our energy management. A number of significant investments were started in this target group this year. Of the developments under way, exploitation of the Battonya oil field and the development in the interest of maintaining the level of Algyo oil production are progressing well.

Development of the grain storage network, being realized in the competition system, is progressing well; more than 2.5 times as much as last year has been turned to this. The investments begun in earlier years have been realized on schedule and the railroads and farms have begun storage construction well, using their own resources. The guiding and financial organs (Ministry of Agriculture and Food, National Planning Office, Ministry of Finance and State Development Bank) jointly approved competitions exceeding the number planned, which made possible an input of resources from the developers themselves totaling more than prescribed. It is foreseeable that this year the farms and grain trading enterprises will make use of 241,000 tons of storage capacity.

The ministries, chief authorities and councils used 13.3 billion forints, 60 percent of the plan prescription, for other state investments. The rate of expenditure increased month by month, and by the end of the third quarter expenditures exceeded those of the same period last year by 1 percent, instead of the planned decrease.

The councils spent 6.6 billion forints, 2 percent more than last year, on other state investments under their jurisdiction--primarily on educational and

cultural installations, water management and public utilities development, installations connected with housing and for development of transportation.

In the Enterprise Sphere

In the first three quarters the managing organs turned 63.3 billion forints to enterprise investments. Payments exceeded those of the previous year by 3 percent, instead of the planned 3-5 percent decrease, which was made possible by extra resources coming from use of reserve funds and from profits available, greater than planned.

Investment activity in the enterprise sphere was more lively than last year and more lively than planned, but a marked moderation could be experienced in recent months as compared to the 8 percent growth of the first half of the year. This shows the effect of a series of measures to reduce purchasing power and reduce nonruble accounting imports. The slowing was stronger in the sphere of state enterprises and weaker among cooperatives. In addition to the measures intended to hold back the upswing in investment activity a braking effect was played also by the exhaustion of credit and by extending and broadening the ban on support decisions. More than half of the authorized credits serve preferred goals; the share of credits aiding energy rationalization, proportional development of industry and production of products which can be sold economically on every market are the more significant ones.

This year there have been 635 requests for relief from the ban on support decisions, for purposes of energy rationalization, and a decision was made on 306 investments. The increased possibility for the year, 2.2 billion forints, was used up by September.

The contracts for construction and assembly work of an investment character of the contracting construction industry to be carried out in 1982 decreased by 1.2 billion forints as compared to a year ago (decreased to 74 billion forints). But the contracts for work of a maintenance character, and their ratio among all contracts, increased. The total of rejected construction demand can be put at approximately 4 billion forints, which represents the value of 15 days construction, and reflects an essentially balanced condition.

The 21.6 billion forints turned to domestic machine acquisition indicates a 4 percent increase in demand. The 12.4 billion forints turned to machine acquisition in the ruble relationship is a moderation of 15 percent as compared to the same period last year--in contrast to the expectations of the plan. By the end of September investors had turned 12.8 billion forints to investment machine import from the nonruble relationship. Instead of the reduction in expenditures calculated in the plan there was an increase of 3 percent, but the climb experienced in the first half of the year was brought to a halt by the measures taken for this purpose.

8984

CSO: 2500/54

PROSPECTS OF BAUXITE MINING WEIGHED

Budapest MAGYARORSZAG in Hungarian 14 Nov 82 p 25

[Article by Sándor Arvay: "Searching for Bauxite"]

[Excerpt] Bauxite was first found in our country in Gant in the Vertes Mountains (in 1920), and production began a few years later. Mining, which relied mostly on open pit excavation, requested the opinion of experts for mapping various areas, and even though a nationally coordinated bauxite exploration plan did not yet exist at that time, this era was still significant from the future's point of view. Two famous geologists, Karoly Telegdi-Roth and Elemer Vadász established an actual bauxite geology school which operated at worldwide standards. This provided the appropriate foundation for the organized exploratory activity which started after World War II. (By the way, Vadász is also credited with discovering and establishing the extent of Greece's bauxite fields in the 1930's.)

Locating the rock is no easy matter—especially not in this country. That is, while the so-called laterite-bauxite is found in many countries and is associated with characteristic surface formations, primarily karst bauxite is found in Hungary; this fills up the limestone and dolomite depressions, and in addition it is covered with a surface cover layer.

So where should the mines be located? It was soon discovered that the central mountains of Transdanubia were rich in bauxite. The best known site locations are Gant, Iszkasszentgyörgy, Halimba, Szoc, Iharkút, Fenyőfő, Nagygyhaza and Nyírad. In Hungary, the job of the Bauxite Exploration Enterprise (headquartered in Balatonalmádi) under the direction of the Aluminum Industry Trust is the mapping, while Fejér Megye and the Bakony Bauxite Mines are handling actual production. These enterprises employ more than 4,300 people in exploration and in mining.

Long exploratory work precedes the establishment of each mine, during which the experts try to find answers to three questions: what is the shape of the bauxite deposit underground; how deep does it run; and what is its composition? The Hungarian-Soviet Bauxite Aluminum Corporation established in 1950 (MASZOBAL) operated a bauxite exploration expedition, then since 1954 the Bauxite Exploration Enterprise has been performing this work. In 32 years they have drilled more than 2 million meters of exploratory drilling, and spent 1.5 billion forints on the search.

The size of the exploratory work is illustrated by the fact that an additional 4 million meters of drilling is needed to fully establish the size of the Hungarian bauxite inventory. Is this much or little? It is very much at today's prices: it will cost nearly 8 billion forints. But this is an acceptable sum when we also consider the value of the bauxite brought to the surface: more than another 100 billion forints' worth of this treasure is still concealed underground. According to the calculations, the explorations will still provide geologists with work after the turn of the millennium. At the present rate of mining, the Hungarian bauxite stock will predictably last until the first half of the next century.

The bulk of the currently known reserves is located under a cover layer of less than 200 meters in thickness (the limit of open pit mining is 50 meters), and only in the vicinity of Mány is the bauxite known to be under more than 400 meters of cover. With respect to quality, the Hungarian "red dirt" is mediocre: its aluminum content is adequate but it contains more than the average amount of silicic acid. While the bauxites of Guinea, Australia, Jamaica and Brazil have modulus mostly over 10 (the number indicates the ratio of aluminum oxide and silicic acid found in the ore, or the impurities), the Hungarian ore's modulus averages 6-7; but in some countries they even produce bauxite with a modulus of 3-5. Domestic consumption has gradually decreased from the original modulus of 15-17 to half of that today (the expected reserves also promise this same quality), while the bauxite we export has an average quality modulus of 5.5.

Nyirad and Heviz

The present technology of alumina factories is gradually establishing a limit for a further decrease of the modulus. Selling the mediocre-quality Hungarian bauxite and exchanging it for imports with good averages would not be profitable for two reasons. That is, there is more profit in processing bauxite than in exporting it, and also (due mainly to the extraordinary transportation costs) we could only obtain imports for two or three times the price of the domestic bauxite. Because of the lower processing costs, it is to the national economy's advantage to mine the better quality portion of the ores now, but we must expect that around the turn of the millennium the lower quality bauxite will also be sent to the alumina plants; we must, therefore, continue to improve the technology and equipment to process such bauxite.

Technological improvement is the key question anyway in the Hungarian bauxite-alumina-aluminum production chain, and within this it is also the basis for bauxite exploration. Efficiency can be improved with the aid of the allied sciences. Even though the instruments of the Lorand Eotvos Institute of Geophysics do not directly identify bauxite, they do indicate if there is a dolomite or limestone layer in a given depth and if it has a certain size depression in it. The detailed ancient geographic and geomorphological maps also supply much help, as do aerial observations, primarily in recognizing the shallow, small-depth bauxite fields. The mapping work of the Hungarian State Geologic Institute is such a preliminary exploration for the bauxite people.

Hungary's bauxite mining supplies 3 percent of world production. In international respects, we are among the top 10 producers (the order is Australia, Guinea, Jamaica, Soviet Union, Surinam, Brazil, Greece, Yugoslavia, Guyana and Hungary); the annual average of 3 million tons of bauxite brought to the surface is completely sufficient for the aluminum industry—as long as the technology of alumina production appropriately adjusts to the way the quality of domestic production changes. Of the present mines (based on estimates of their reserves), only the one in Halimba and Bito II will see the 1990's, therefore it is necessary to replace the others with new ones. The Nyirad region and the three large finds in the Northern Bakony Mountains (Iharkut, Fenyöfo, and Bakonyoszlop) have high promise. The Nagygyháza plant (near Tatabánya), which will start up in a few years, and which is being built within the framework of the investment started by the Hungarian Coal Mining Trust, promises large reserves.

The matter of mining's side effects cannot be ignored. In the consideration of the harm done to the environment (protecting the ancient pine forests at Fenyöfo, recultivation and operation of abandoned mines), nowadays the focus is on the Nyirad-Haviz debate. Bauxite mining in this region is applying the method of active water conservation: water is being pumped from the dolomite cavities to the surface through 30 shafts, thus lowering the ground water level, opening the way for mining deeper and deeper. Dolomite water obtained in this manner supplies the residents of vacation homes along the Western part of Lake Balaton, [the cities of] Ajka and Pápa receive their drinking water from here, and the quantity pumped into Tapolca Bay significantly improves the lake's water composition. But, according to the studies, the water lift's effect is also felt in the water supply of Lake Haviz 40 kilometers away.

Thus the interests are conflicting with each other, since bauxite production yields important foreign currency income; so does the medicinal effect of Haviz, and protection of its health care and the value of foreign tourism.

The rate of production at the present time is far from ideal with the restricted water lift (a maximum of 350 cubic meters per minute). A faster mining rate seems practical and advantageous to the national economy. But it is absolutely necessary to make a move: maintaining the present situation is perhaps the worst thing since this way both parties are being harmed, and by postponing the decision time and time again, a decision is actually still being made...

Scientific Work

After the 1920's when the Hungarian bauxite geologists were carefully feeling their way around and set up a school, they learned the methods of industrial bauxite exploration with Soviet help. They are standing on their own feet by now and are considered to be even internationally recognized experts. The International Bauxite, Alumina and Aluminum Scientific Association has a Hungarian vice president, and the Hungarian experts are

also doing significant work in the scientific program of the International Geological Union dealing with lateritization. The rest of the world is studying Hungary's example in the areas of bauxite genetical explorations, chemical and petrographic material studies, as well as practical exploration and how to organize it, active defense against water and how to deepen the water removal shafts by drilling.

Mining-exploration geology is actually an empirical science, projecting facts learned in reality to areas that have not yet been mapped, and using its own experiences derived from general rules, as well as the help of associated sciences, it tries to reason out the location of areas suitable for mining. A science conforming to the needs of production must know in which regions and with what methods it is worth exploring.

8584

CSO: 2500/48

HUNGARY

OFFICIAL TELLS OF AGRICULTURAL ACHIEVEMENTS, NEEDED REFORMS

Budapest OTLET in Hungarian 28 Oct 82 p 4

[Text] Miklos Villanyi, State Secretary of the Ministry of Agriculture and Food, was a recent guest speaker at the lecture series on reform sponsored by the Kossuth Club. In response to the question as to whether or not there had actually been some reform in agriculture and whether additional measures were necessary, he responded with a decisive, "Yes." The economic crisis of the 80s requires adjustments in agriculture. "If we act as quickly as possible, today's tensions can be resolved." The uniqueness of the agricultural reform, he feels, is that it need not hinge on reforms in other industries. It can act before other measures are implemented. Here, too, we must continuously meet international standards which are very high. Sometime we can surpass them; at others, our efforts are in vain. We can take pride in the fact that production value per hectare amounts to \$600, equalling that of Italy and France; that per capita value of production is better still, second only to Holland; that per capita export of foodstuffs matches statistics for the U.S.A. We invariably do very well in production of meat, corn and wheat.

Although we play no decisive role in world agricultural commerce, Hungary ranks as a great power on world markets for poultry, eggs, apples and sunflower. Where we fail to measure up is in horticultural production. Insofar as potatoes and sugar beet production are concerned, the supply of resources and material lags behind that of the Common Market countries and even that of some of the CEMA countries.

Of what concern is the fate of potatoes, rabbits and snails to us? In a sense it affects us all directly, because agriculture accounts for 20-25 percent of total Hungarian exports. In absolute figures this amounts to one billion dollars. Although this figure is too low to justify the conviction held by some that agriculture is the salvation of the Hungarian economy, it is nonetheless an impressive figure, one that increases annually with sufficient reliability to warrant our basing our hopes on it. Indeed, agriculture can be one of the roads in this period of seeking paths to the nation's future. However, agriculture cannot proceed alone.

Is a reformulation of agricultural policy necessary? No, according to Villanyi, but we must be aware of the fact that the road we have followed successfully so far is no longer smooth, that there are obstacles which need removing to clear the way for some new approaches.

Agriculture will gladly risk, in fact desires to risk removal of the double barrier which blocks it from foreign markets. One such barrier is the foreign trade enterprise which is often an oppressive obstacle between agricultural producers and the world market. The second is the processing industry the role of which is detrimental when it holds a monopoly over the producer. Of course, both barriers provide protection. Without them, the producer would often be defenseless. But agriculture no longer needs to be sheltered in a hothouse.

Surprisingly, Villanyi said that the domestic food market was saturated, that domestic demand can be met in full. Intermittent shortcomings in quality, selection or goods are due to faulty organization and can be remedied.

In fact, massive surpluses are sometimes produced as was the case with apples this year. We have yet to learn to cope with overproduction. In this, we lack practice. Agricultural production will probably increase by about 2 percent in the coming years. It could achieve this more rapidly and actually does when the market permits sales at realistic rather than dumping prices. However, even this must be accepted at times because every cent counts.

Hungarian agriculture is flexing its muscles and asks for greater latitude. In return, it will be more productive. It needs only to realize in the near future that what is truly modern is also less expensive.

CSO: 2500/73

PROSPECTS OF POLISH-AUSTRALIAN ECONOMIC TIES ASSESSED

Warsaw SPRAWY MIĘDZYNARODOWE in Polish No 5, May 82 pp 67-80 [signed to press July 1982]

[Article by Waldemar Niemotko, legal advisor: "Australia as an Economic Partner of Poland"]

[Text] It is not an easy task to find the optimal criteria for shaping the economic relations between Poland and Australia. The cosmopolitan and psychological differences, the different cultural traditions and significant distance, require constant searching for ways toward developing bilateral relations which would take into account the regional and global political-economic considerations.

Economic exchange between Poland and Australia is conducted according to the traditional principles that were characteristic of 19th century trade. It is a simple exchange of goods based on the natural complementarity of the economies of the two countries. The exchange does not reflect many of the existing technical-organizational solutions leading toward the development of agreements between both countries. The proposal to introduce changes in that area is supported by the tendency, common in the world, to enliven economic exchange between states by replacing the natural labor division with a mutually agreed upon international division of industrial production, based on considerations of the principles creating new economic order in the world.

Characteristics of the Economy

The Australian Commonwealth is a highly developed industrial-agricultural country that benefits from both the production and export of agricultural products, as well as mining (1/3 each in the volume of total exports).¹

Australia is the largest wool producer in the world.² (90 percent of production is exported; wool fleece constitutes 4/5 of the total wool export). Wheat occupies the leading place in crop production (in fertile years, most of the production goes for export), then barley, oats, sorghum, sugar cane, fodder crops, and fruits. Numerous herds make possible the export of a significant part of the beef, calf, and lamb produced.³ The country is also known in the world market for its production of sugar, dairy products and processed foods and fruits.

Among rich deposits of mineral resources, the following are being mentioned: coal (second place on the list of world exporters),⁴ iron ore (first place in world exports, in spite of entering the foreign market as late as 1965), uranium (about 16 percent of the deposits feasible for exploitation in all capitalist countries), metallurgic sands (the largest world exporter of the basic raw products for producing zircon, tutenium, ilmenite, and monasite), oil and natural gas (65 percent of domestic needs), nickel (third on the list of exporters), lead (third among the exporters), zinc (second largest exporter), copper, tin, manganese, tungsten, silver, gold (the first discovery of deposits by Pawel Edmund Strzelecki in 1839), antimony, salt, phosphorite, etc.⁵

A mention should be made of the significant financial outlays for exploitation of undersea deposits of hydrocarbons (especially in the area of the Bass Strait, with a particularly involved participation of the Esso and Broken Hill Proprietary Companies) and the participation in an international consortium working on the improvement of methods for extracting manganese nodules from the bottom of the Pacific Ocean (Broken Hill Proprietary Company).⁶ Australia is also actively participating in efforts to establish international rules for future exploitation of the mineral deposits of the Antarctic.⁷

Taking under consideration that the Australian continent is located away from the world markets, it is difficult not to take notice of the important role of maritime transport in serving the foreign trade needs of that country, especially since most of the exports involve bulk shipments. The role of coastal navigation is equally important.

Economic Policy

The fact that the structure of the Australian economy does not foster emergence of giant industrial-trade firms should be positively evaluated. On the list of the 500 largest world corporations (with the exclusion of the U.S.A.) only four are Australian firms. (Table 1)

The firms are relatively small in comparison to the world's largest American oil concern, Exxon, whose sales in 1979 amounted to 79,106 million dollars, assets reached 49,490 million dollars, and the net profit was expressed as 4,295 million dollars.⁸

The economic development of Australia demanded large capital investments from abroad at its very beginnings. Nowadays, this matter becomes important because Australia is attempting to increase the exploitation of her natural resources, which is difficult, considering an insufficient understanding of the deposits and the relatively low degree of extraction. There are systematic efforts aiming at attracting foreign capital, especially in the area of geologic and geographic exploration and the extraction of resources. Foreign investment of capital exceeded 15 billion dollars, with American investment constituting the largest group (5,064 billion on 30 June 1979).⁹

The process of buying out Australian property by foreign capital¹⁰ and the resulting control over numerous, vital sectors of the economy of the country¹¹

creates understandable concern. In the manufacturing industry, 40 percent of the profits earned by the 200 largest enterprises come from enterprises controlled by foreigners; in the mining industry the percentage exceeds 50.¹² It should be taken into consideration that about 800 American and over 80 West German,¹³ plus many Japanese, British and other Western European companies have their branches or representatives in Australia.

The tendency toward "Australianization" of industry, a natural self-defense reaction in this situation, has been displayed, for example, in the exemption from obtaining approval for new investments in case of those foreign companies which currently have a 25 percent Australian ownership and a commitment to increase that share to 51 percent. Another indication of such tendencies would be to guarantee a wider participation of Australians on the boards of foreign corporations and imposition of the duty to publicly disclose the effects of activities in Australia (as Australian companies are required to do).¹⁴

The liberal-agrarian coalition led by Premier J. Malcolm Fraser since the end of 1975 is continuing many points of foreign policy from the era of the Labor Party government under Premier E. Gough Whitlam (1972-1975).¹⁵ The policies of the successive cabinets sometimes displayed outright paradoxical examples.¹⁶ Being a member of the ANZUS Treaty--and until 1973, in the SEATO Pact--and extending to the U.S. the right to maintain military bases on its territory,¹⁷ Australia took a negative position toward some of the aspects of the Vietnam War¹⁸ and sharply protested the French thermonuclear experiments, especially those that were conducted during 1973-1974 in the southern Pacific.¹⁹ In spite of benefitting over many years from the economic activities of hundreds of American corporations on its territory,²⁰ Australia expressed an official objection²¹ to the announcement by the Virginia-based Deepsea Ventures, Inc. of a claim to exclusive exploitation of the manganese nodules deposits in a selected area in the northern Pacific.²² In her drive toward maximal geographic diversification of trade and economic cooperation, which accelerated when the United Kingdom joined the European Common Market in 1973, Australia has, for several years, been substantially developing trade exchange with Japan,²³ the only country that ever threatened her independence. Nonetheless, in political, military, and economic-investment matters, the U.S.A. and Great Britain continue to occupy a major place. While politically and economically Australia belongs to the countries of the rich North, her geographic location places her in the zone of the poor South states. Although having a solid structure of a free market economy and maintaining trade exchange with the developing countries (especially the ASEAN group).²⁵ The export of Australian goods to countries with a planned economy system (especially the PRC) has begun relatively recently.²⁶ To the credit of the lasting Laborite government belongs the "opening" of Australia at that time to the world at large, including the socialist countries.

Population and Its Professional Characteristics

Australia has a population of 15 million, a huge territory of 7,682,000 square kilometers, and a density of population of two persons per square kilometer. The respective figures for Poland are 35,578,000 population, 313,000 km² of area, and a population density of 114 inhabitants per square kilometer.²⁷ In the 70's, 86 percent of the population in Australia lived in cities (58 percent for Poland).²⁸

The problem of qualified cadres—besides the menace of a lack of water in significant parts of the country—can be considered the main subject of preoccupation in implementing all developmental programs in Australia. Shifting whole branches of manufacturing and services to the demands of the global scientific-technological revolution is unthinkable without appropriately prepared cadres. A special report by the committee of experts led by Rupert Myers that was submitted to the federal government in 1978 contained a statement that only the better educated workers and those distinguished by their mobility, ability to adapt to new conditions and capability of receiving additional vocational retraining, could benefit from technological progress.²⁹ In the interim, the narrow demographic basis demands continued reaching for immigration reserves and specialized contract employees from across the ocean (e.g. the 1975 engagement of British lawyer, Elihu Lauterpacht, for the purpose of competent representation of Australian interests in the General Assembly of the U.N. and in the Conference on the Law of the Sea³⁰), not to mention the traditional education of a significant part of the intelligentsia and leading political cadres³¹ at British universities or the use of a British model in some of the important fields of the economic life (e.g., legal system, banking, insurance, maritime industry). Australian immigration policy for years has been based on the principle of seeking a qualified, cheap labor force. This area is reflected in Australia's ethnic policy, based on multicultural principles, i.e., with a respect for cultural, scientific, and civilization achievements of individual ethnic groups. There is a belief that these achievements should not be restrained in order to maintain the growing national cultural wealth of Australia. Undoubtedly influenced by the observation of the negative phenomena in the social life of U.S. and Great Britain, a view has been formulated that each ethnic group living permanently in Australia ought to have its own intellectual elite in order to prevent germination of attitudes of frustration, and consequently, the tensions created by feelings of racial or ethnic discrimination.³²

Statistics for patent applications show that of the total of 15,936 applications submitted in Australia in 1980, only 6,582 (41 percent) were authored by the local inventors.³³ Foreign royalties show a negative balance that amounted to 62 million Australian dollars in the 1972-1973 fiscal year and increased to 78 million in 1978-1979 fiscal year.³⁴

Problems exist in the area of labor unions organization. Their influence on the conduct of public affairs is analogous to the role of the labor unions lobby in the functioning of the U.S. Congress.³⁵ The recollection of resistance by miners from gold mines around the hotel Eureka in Ballarat in 1854, against the autocratic forms of the colonial authorities, which became the foundation of the contemporary egalitarianism in the Australian society, is deeply engraved in the minds of the Australians.³⁶ "Whitlam leads the country toward a leftist republic governed by labor unions"—these words, spoken by a leader of one of the opposing parties, are characteristic of criticism of the then premier of the Laborite government.³⁷ Today, 55 percent of the total employed (2,9 million persons) belong to 315 labor unions that vary in character.³⁸

Legal-Political Framework

As in all countries of the Commonwealth, the legal system of Australia is based on British law. The functioning of the legislature on a written constitution and the division of functions between federal and state authorities (with significant diversification among different states, especially in the area of civil law) resembles the political institutions of the U.S.

The primary source of law is precedent from Australian court decisions, fashioned under great influence from British jurisprudence, encompassing among others, a broad area of civil-legal relations, trade included. Nonetheless, there is a trend toward the growth of legislative law. While during the decade ending in 1969 there were 6928 legislative acts (federal and state) the following decade closed with 9703, a 40 percent increase. It should be noted that the rate of increase in federal legislation was relatively lower than that produced by state legislatures or the countless executory decrees.³⁹ The areas legislated by the federal government include among others the following fields of law: banking, bankruptcy, domestic relations, criminal law, patents and the related fields of trademarks and copyrights, and a wide area addressed to administrative matters. Australia, during the postwar period, surpassed its own previous record for the number of international legal acts incorporated into its municipal legal system (during the years 1901-1978, Great Britain incorporated a total of 264 international agreements, Australia—281).⁴⁰

From the point of view of the current trade turnover with Poland, it should be noted that Polish goods are subject to general tariffs which are 10 percent to over 20 percent higher than the preferential tariffs applied to goods from Great Britain, Ireland, Canada, and Papua New Guinea. The preferential tariffs have separate application to goods produced in New Zealand and the developing countries. Besides the tariff, the Australian duty system provides several kinds of other payments, for example, the additional fee, special duty, sales tax, and excise tax. Polish textiles and leather footwear, to which apply world quotas, are free from discriminatory trade barriers. Among the most often utilized nontariff barriers should be mentioned volume quotas, licensing of imports, mandatory attestations and quality regulations. In addition, it should be noted that the successfully developing export of Polish electric motors was halted by the imposition of an antidumping duty (with doubtful justification in the factual situation—according to the Polish exporter).

Trade in Goods and Services

The current frameworks of Polish-Australian trade turnover are contained in the trade agreement concluded by both countries on 20 June 1966, in Warsaw. The agreement contains provision for treatment of bilateral trade on the principle of the Most Favored Nation Clause within the framework of the General Agreement on Tariffs and Trade (GATT). The agreement, originally signed for a 4-year period, is equipped with a clause providing for automatic renewal for successive one-year periods.

Complementing the trade agreement is the agreement on trade exchange and industrial and technical cooperation concluded 16 August 1978, in Canberra, for a period of 5 years, with provision for continuing, if it is not abrogated at the end of the term. The parties to the agreement committed themselves to support constant development in bilateral trade exchange and to undertaking appropriate steps toward its facilitation. Also in the agreement, there is a stipulation favoring facilitation of industrial and technical cooperation within the framework of multiyear trade contracts that would include, among others, patents, licenses, services, and industrial and technological expertise. The possibility of joint work in the field of exploration of natural resources and cooperation in the planning, deliveries, and installation of complete industrial plants and their furnishing has been taken under consideration. The agreement contains a recommendation that the arising disputes be decided through arbitration, in accordance with the arbitration principles of the UNCITRAL [United Nations Commission on International Trade Law].

On the basis of the above agreement a mixed commission has been established with the assignment, among other things, of seeking ways for further development in trade exchange and industrial and technological cooperation between both countries. The inaugural session of the mixed commission took place in Warsaw, 21-25 May 1979. It was agreed that the next session would be convened in Canberra in three years.

In bilateral trade turnover Polish import decidedly was higher than export.

A significant acceleration in mutual trade turnover took place during 1970-1981, however, the dynamic of our import from Australia was seriously ahead of the dynamic of Polish export increase to the Australian market. During the entire past decade imports from Australia had been covered by our export from that country on a very low level showing a small improvement only during the past two years.

Textiles, glass and crystal, footwear and leather goods, chemical industry products, lathes and tools, and household and sport articles play a main role in Polish export to Australia.

Wool and raw leather constitute 95 percent of the Polish import from Australia. In addition, we are importing raw materials needed for our steel industry, namely bauxite, lead, and concentrates of titanium and zircon.

A successful example of cooperation is the implementation of leather deliveries after initial processing (so called wet-blue) and production of [? skor salankowych], based on a 5 year agreement signed in February 1978 by Foreign Trade Enterprise Skorimpex and the Centralcure company in Gunnedah. Foreign Trade Enterprise Textilimpex in July 1975 established trade partnership Textilimpex Australia for purchasing Australian wool and selling Polish textile goods (with initial participation of the local company Collin Holdings). Also active, from June 1979, is Glasspol Pty Ltd. in which participates Foreign Trade Enterprise MINEX. Foreign Trade Enterprise Metalexport has its own agency in Sydney that handles the matters of trade

and technology. The sales of other items take place through the network of agents and distributors, and is conducted also directly with the buyers.⁴¹ The indication of our economic presence in Australia is also shown through presence of the Polfracht A/Asia partnership, with headquarters in Sydney, agencies of Polish Oceanic Lines in Sydney and Melbourne, and an agency of Polish Airlines LOT in Sydney.

Australian businessman Donald J. G. Strang⁴² gathered support from other businessmen, when during a visit to Poland in 1966, he proposed establishing an Australian-Polish Chamber of Commerce.⁴³ The Chamber was created on 25 February 1976, with the purpose of searching for ways for developing a mutual trade exchange and industrial ties, to provide reliable information from the area of trade and industry, to study legislative changes, and even to amicably resolve arising trade disagreements.⁴⁴ The new organization has established cooperation with the Polish Chamber of Foreign Trade [PIZH] in Warsaw, and assured itself affiliation with the Chambers of Commerce in Melbourne, Sydney, and Brisbane, i.e., those operating in the most economically active, the southeast part of Australia. The Australian Section at the Polish Chamber of Foreign Trade, created in June 1978, is an organizational equivalent for our land. The useful role being played by the World Chamber in Gdynia, already existing for several years, deserves mention. Australian exhibitors have participated more than ten times in the post war period in the International Poznan Trade Fair, and the Poles have become interested in the exhibition shows in the country of that partner, especially in the Australian International Engineering Exhibition [AIEE] that takes place annually, alternately in Sydney and Melbourne.

Developmental Directions for Economic Cooperation

The analogy appearing between Poland and Australia in domination of agricultural foods and mined products in the export of each country could suggest that there is an opportunity for industrial cooperative development. Without disregard of prospective possibilities, realistically it should be stated that the significant distance and the current economic situation of our country demand concentrating our attention on the fields that are determined by the complementary criteria of Polish and Australian economies.

Wool, raw hides and other raw materials will be continuously dominant in the import from Australia. Undoubtedly, a stabilizing factor for continuation of our import from that market was the extending to Poland in April 1981 of 40 millions worth of credit with interest, in Australian dollars, based on the guarantee by the Export Finance and Insurance Corporation, a government institution. The very fact of extending such a guarantee to a socialist state is a precedent in itself. In consideration also could be taken purchases of wheat, oats, and sorghum only, however, if further credits can be obtained.

In the Polish import to Australia the main role will be continually played by light industry goods, and here a larger differentiation of products should be provided. We can still offer sport-recreational equipment and household goods. Some hopes may be offered by our obtaining of deliveries for light

airplanes, for instance, for fire observation and bush fire fighting (taking under consideration the possibility of relying on Canadian certification for one type of our airplanes). On the proposal list may be included: airplane and helicopter engines, small passenger cars, certain types of specialized freight and fishing ships, yachts and navigational equipment and instruments. It is worthwhile as well to aim at an increase in deliveries of tractors, and also to initiate export of other agricultural equipment, road machinery,⁴⁵ mining equipment (taking under consideration the demands dictated by local geological conditions) and the equipment and fittings for the needs of the energy and railroad industries. Electronic components, cable wire, musical instruments, and home refrigerators and freezers can be also considered attractive export items.

A suggestion of increasing our share of investment equipment and the machine industry goods export is linked with the necessity for finding enterprising agents or setting up expensive service centers with spare parts warehouses in Australia (unless export were to be based on licence sale). For that reason all forms of "invisible export" that assure almost automatic profitability of an enterprise and contribute to growth of the prestige of a partner capable of delivery of such a contribution deserve closer attention. Some results in getting the Australian side interested in obtaining Polish technological thought came with the visit to our country, in 6-9 October 1975, of Sir Davis Hughes, the official representative of the government of New South Wales to Europe. Six years later, the Australian minister of Foreign Affairs, Anthony Austin Street, during the first such high level visit to Poland said: "It can be stated without exaggeration that perhaps the strongest ties between Australia and Poland are the contacts between the people."⁴⁶

Nonetheless, this does not change the existence of arduous methods for accepting candidates for work in Australia. It is required to receive approval from the appropriate branch of labor unions and to prove, through the interested company, that a given expert is not available in Australia. Such an interested company usually demands a direct interview with the candidate for employment, and the fundamental obstacle for us is in the significant distance. In addition, the procedure for conducting the entry formalities oftentimes is time consuming. In an overview, it should be stated that the absorptive Australian work market deserves an in-depth appraisal from the point of complementarity of the current interests of both countries. Particularly interesting seems to be the feasibility of providing consulting and performing technological-planning services in the field of mining, taking under consideration the potential participation by Polish engineers in the exploitation of soft coal deposits for the purposes of its gasification and utilization. A need for acquiring experts is also felt in metallurgy, especially in the area of nonferrous metals. Participation of Polish experts in gas pipeline construction can also be viewed as attractive.

The increase in the regularity and frequency of our maritime ties between the ports of both countries and modernization of shipping technology (anticipated is introduction to service of container ships of ro-ro type), enhances the improvement of favorable climate for development of economic relations between Poland and Australia.⁴⁷ Australian fishing grounds could become an interesting area for potential activity by the Polish fishing flotilla,

providing the local [Australian] administrative restrictions become simplified. Also recommended, would be pursuing to a conclusion the offer to export planning, analytical, and repair services in the fishing and port branches.

It is worthwhile to coordinate our undertakings in trade with Australia with an expansion of our export to such neighboring countries as New Zealand and Papua New Guinea, which is especially strongly linked with Australia. Deserving consideration would be joint Polish-Australian manufacture-trade ventures,⁴⁸ in various developing countries of the South Pacific, especially those belonging to ASEAN. Polish multiyear experience of operating in the Chinese market can become useful for Australian businessmen who generally lack familiarity with planned economic systems. Conversely, even single Australian economic initiatives in Poland could contribute to revitalization of our economic life in the conditions of the initiated reforms.

The Polonia in Australia continuously strengthens its place in the local society.⁴⁹ Nonetheless, it is not yet economically robust enough for us to be able to count on its investing activities in Poland in the immediate future.⁵⁰ New development in that field might bring in the newest wave of Polish emigration but its status has not been so far regulated. Undoubtedly, a consular agreement would facilitate the situation. Moreover, concluding an agreement on cultural-scientific cooperation would be salutary for widening of mutual relationships in the area of industrial-technological cooperation which has been up to now based on the 1978 agreement on trade exchange.

Prospects of Self-Determination

The Australian Commonwealth belongs to the category of the smaller developed states.⁵¹ Incessantly it continues working toward achieving its original identity, as well as the ambition of arriving at the position of regional superpower. Contributing to it are the anticipations that the upcoming century will become the "era of the Pacific," similar to that which from antiquity was characteristic of the Mediterranean, and which for decades now has been enjoyed by the Atlantic.⁵² However, the large dependency on foreign capital and imported technology and consequently, on economic disposition centers located in three different parts of the globe, may interfere in the realization of these intentions. In addition, the Australian nation is facing a lot of effort before it produces its own native scientific and intellectual cadre thinking in terms of national patriotism.

The trend of Australia toward assuring larger geographic diversification in its economic ties with foreign countries offers Poland an opportunity to expand the relations of partnership, among others, through prospective departure beyond the framework of natural complementarity of economies in both countries. Our reform program may encourage some of the domestic enterprises (especially light industry) to become interested in production that would find demand in the Australian market. The Polish export of technical services would have an especially significant role. The large dosage of deliberation characteristic of both partners in their approaches to various issues ascertains them of a possibility of working out original forms of cooperation in the future. Undoubtedly, one day there will appear in our country a new scientific-research discipline: australistics.

TABLE 1

Australian industrial corporations on the world list in 1979^a

CORPORATIONS	WORLD RANK (by sales volume)	BRANCHES	SALES VOLUME (in millions of dollars)	ASSETS	NET	EMPLOYEES (in thous.)
Broken Hill Prop.	115	metallurgy	3,206	4,470	203	61
Colonial Sugar Refining	205	sugar refining, mining, constr. materials, chemicals	1,919	1,409	70	11
Australian Consolidated Industrial	397	glass, packing materials, constr. materials	930	846	34	22
Dunlop Australia	489	rubber, textiles	724	415	25	19

^aU.S.A. excluded.

Source: Fortune magazine: 11 August 1980. pp. 190-204

TABLE 2

Polish-Australian trade turnover during 1928-1938
(in millions of zlotys)

YEAR	EXPORT	IMPORT	TURNOVER	BALANCE OF TRADE
1928	.1	22.8	22.9	-22.7
1930	.2	42.7	42.9	-45.5
1932	.2	16.5	16.7	-16.3
1936	.4	38.2	38.6	-37.8
1938	.6	27.8	28.4	-27.2

Source: Concise Statistical Yearbook, 1939. GUS. Warsaw. pp. 166-167
Computations of turnover and balance of trade values by author.

TABLE 3

Polish-Australian trade turnover during 1950-1981 based on F.O.B.
(in millions of foreign exchange zlotys)

YEAR	EXPORT	IMPORT	TURNOVER	BALANCE OF TRADE
1950	1.7	.001	1.7	+ 1.7
1955	.8	.0	.8	+ .8
1960	2.4	1.1	3.5	- 1.3
1961	2.7	55.6	58.3	- 52.9
1965	8.9	59.6	68.5	- 50.7
1970	11.7	62.0	73.7	- 40.3
1975	24.3	174.0	198.3	-149.7
1979	35.8	381.3	417.1	-345.5
1980	51.2	316.5	367.7	-265.3
1981	52.7	292.4	345.1	-239.7

Source: For 1950-1969 data: 1970 Foreign Trade Statistical Yearbook. GUS Warsaw, pp. 28-29, 32-33; for 1970-1980 data: GUS Statistical Yearbooks; for 1981: Concise Statistical Yearbook 1982. GUS. pp. 198, 200. Computations of the totals for turnover and balance of trade by author.

TABLE 4

Some of the more important groups of goods in 1975-1980 Polish export to Australia (in percentages)

ITEMIZATION	1975	1979	1980
Products of industries:			
--light	44.7	43.8	45.3
--electromachinery	12.9	14.5	18.3
--chemical	17.3	21.7	14.4
--minerals	13.9	13.0	13.7
--foods	10.0	5.1	4.6
--wood-paper	.1	.3	1.8
Remaining groups of goods	1.1	1.6	1.9
	100.0	100.0	100.0

Source: Author's computations based on Foreign Trade Statistical Yearbook 1981. GUS. Warsaw. p. 155

TABLE 5

Some of the more important groups of goods in 1975-1980 Polish imports from Australia (in percentages)

ITEMIZATION	1975	1979	1980
Agricultural products	72.9	52.0	65.1
Products of industries:			
--food	22.5	38.7	31.4
--metallurgy	2.6	7.9	.3
--chemical	0.0	1.4	.8
Remaining groups of goods	2.0	0.0	2.4
	100.0	100.0	100.0

Source: As in Table 4

FOOTNOTES

1. In 1981, Australian exports amounted to 22.9 billion dollars, while imports stayed at 23.0 billion dollars. This indicates a negative balance of trade in the amount of .1 billion dollars. "Maly rocznik statystyczny" [Concise Statistical Yearbook] 1982. GUS [Main Statistical Office. Warsaw, p 367. Detailed numerical data on trade turnover abroad are given in QUARTERLY ECONOMIC REVIEW OF AUSTRALIA, Papua New Guinea, Annual Supplement 1981. London, 1981. Revised comparative computations are contained in OECD ECONOMIC SURVEYS: AUSTRALIA, June 1980.
2. See, T. Olszewski: "Geografia ekonomiczna Australii i Oceanii" [Economic Geography of Australia and Oceania]. Warsaw, 1975. p 85.
3. See, statistical data in: "Australia, an Outline." Canberra, 1980. p 13.
4. For prognosis of the export of Australian coal, see: THE AUSTRALIAN FINANCIAL REVIEW, 30 July, 1981 p 21. Deposits of hard coal in Australia are evaluated at 50.4 billion tons. WEEKLY NEWSLETTER, from February 1982 p 4.
5. "Australia World Trader." Canberra, 1980 pp 19-22.
6. "Ocean Manganese Nodules, 95th Congress, 1st Session" (June 1975) Washington, D.C., 1975 p 36.
7. See, J. Machowski, "Funkcjonowanie układu w sprawie Antarktyki." SPRAWY MIĘDZYNARODOWE. ["The functioning of the agreement on the Antarctic." INTERNATIONAL AFFAIRS 1980, No 2 pp 155-157.
8. FORTUNE, 11 August 1980. pp 276-277.
9. "Australia and the United States--A Close and Enduring Relationship," AUSTRALIAN FOREIGN AFFAIRS RECORD, 1981, No 5, p 229. Compare: different values in: "Boom w Australii trwa." RYNKI ZAGRANICZNE. ["The boom in Australia continues." FOREIGN MARKETS] 4 July 1981.
10. B. Piaszczyński. "Polityka zagraniczna Australii." SPRAWY MIĘDZYNARODOWE ["Australian Foreign Policy," INTERNATIONAL AFFAIRS] 1980, No 2 p 105.
11. Foreign centers control, among others, the motorization, chemical and petrochemical, and mining industries. "Marketing Capital Equipment." Canberra, 1981, p 10.
12. "Australia, an Outline." *ibid.* p 7.
13. "Australian Foreign Affairs Record," 1981, No 7, p 39.
14. "Investing, Licensing and Trading Conditions Abroad," New York, 1981, p 3.

15. B. Piaszczyński. op. cit., p 105.
16. Various inconsequences described by Bruce McFarlane in: E. Utrecht, "Transnational Corporations in the Developing World," Sydney, 1976. p 89.
17. B. Wizimirska: "Ocean Indyjski w problematyce bezpieczeństwa," SPRAWY MIĘDZYNARODOWE ["Indian Ocean in the problems of security," INTERNATIONAL AFFAIRS], 1977, No 6, pp 42-43.
18. B. Piaszczyński. op. cit., p 103.
19. "The Australian Year Book of International Law," Canberra, 1978, Vol 6. pp 361-366.
20. B. Jasinski. "Rola międzynarodowych przedsiębiorstw w gospodarce światowej," SPRAWY MIĘDZYNARODOWE ["The role of international corporations in world economy," INTERNATIONAL AFFAIRS], 1976. No 10, p 62.
21. Letter from Australian Embassy in Washington from 21 May 1975, marked 221/3/1/16/1/1, sent to the author of the article. "The Australian Year Book," pp 282-283.
22. "International Legal Materials," 1975, No 1, pp 51-66.
23. Comp. M. Dobroczynski, "Światowa ekspansja gospodarki japońskiej," [World Expansion of Japanese Economy], Warsaw, 1975, pp 58, 70, 152-153.
24. Australian export is directed 58 percent to OECD countries.
25. "Australic-ASEAN Relations. Australian Information Service Reference Paper," Canberra, 1981. The statistics of trade exchange are quoted by B. Piaszczyński: op. cit., p 108.
26. Comp.: "China pays hard case for Australian wheat crop." THE AUSTRALIAN FINANCIAL REVIEW, 4 Aug, 1981. p 15.
27. "Rocznik Statystyczny 1981," ["1981 Statistical Yearbook"]. GUS, Warsaw, pp 630, 634.
28. Ibid. p 629.
29. "Australia Current Report," Canberra, 1980.
30. "Who's Who 1978," London, p 1414.
31. Comp. E. Dynia: "Członkostwo Brytyjskiej Wspólnoty Narodów," SPRAWY MIĘDZYNARODOWE ["Membership in the British Commonwealth," INTERNATIONAL AFFAIRS], 1978, No 5, p 138.
32. "Immigration Policies and Australia's Population: A Green Paper," Canberra, 1977, p 91.

33. "Industrial Property Statistics 1980," Geneva, 1982, p 8. For current working of Australian Patent Office see: "Industrial Property," 1981, No 12 pp 338-342.
34. "Investing, Licensing and Trading," *ibid.*, p 10.
35. C. Gromadzki. "Miedzynarodowe aspekty dzialalnosci amerykanskich zwiazkow zawodowych," KAPITALIZM, ["International aspects of American labor unions activities," CAPITALISM], 1978, No 2, pp 77-78.
36. "The Far East and Australasia 1980-1981," London, 1979, p 173.
37. B. Piaszczyński, *op. cit.*, p 104.
38. "Australia: Current Report, Technological Change," Canberra, 1980.
39. "Government Regulation in Australia, Paper 1, Introduction: the Federal government," Canberra, 1980, p 40.
40. J. Crawford. "The International Law Standard in the Statutes of Australia and the United Kingdom," AMERICAN JOURNAL OF INTERNATIONAL LAW, 1979, No 4, p 630.
41. AUSTRALIAN POLISH CHAMBER OF COMMERCE NEWSLETTER. 1976, No 1, p 16-18.
42. The owner of the Tradex transport company serving also trade exchange, headquartered in Melbourne, with an office in Sydney.
43. Actually it amounted to reactivation of an analogous institution established in 1930 by Polish consul, Wladyslaw Noskowski. See: L. Paszkowski, "Polacy w Australii i Oceanii, 1790-1940" ["Poles in Australia and Oceania, 1790-1940"], London, 1962, p 228.
44. Australian Polish Chamber, *ibid.*, p 5.
45. The significant demand for road machinery may be the result of the anticipated implementation of a nationwide network of roads protected from floods, by the year 1988, i.e. on the 200th anniversary of the first permanent settlement of the European type, today's Sydney. WEEKLY NEWSLETTER, 30 October 1981, p 12.
46. TRYBUNA LUDU, 26 Nov 1981.
47. The inauguration of regular freight sailing on the Australian line was initiated when "Stefan Okrzeja," a ship of Polish Oceanic Lines, arrived in Melbourne on 12 Dec 1959. Comp.: "Polskie Linie Oceaniczne w latach 1951-1978 ["Polish Oceanic Lines in the years 1951-1978"], Gdansk, 1980, p 172.
48. Inspiration is supplied by works conducted under the auspices of the U.N., e.g. "Small Industry Bulletin for Asia and Pacific," New York, 1979, p 161.

49. J. Zubrzycki. "Polish Emigration to British Commonwealth Countries," INTERNATIONAL MIGRATION REVIEW, Winter 1979, pp 655-658.
50. W. Helman, "Polonia w Australii" ["The Polonia in Australia"], Lublin, 1975, p 85; comp. E. Zawadzki. "Investycje Kapitału polonijnego w Polsce Polsci," SPRAWY MIEDZYNARODOWE ["Investment of Polish emigrant capital in Poland," INTERNATIONAL AFFAIRS] 1980, No 2, p 111.
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OFFICIAL REPORT ON IMPLEMENTATION OF ECONOMIC REFORM PUBLISHED

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[Text] Report of the Government Plenipotentiary on the Initiation of Economic Reform During the First Half of 1982 (abridged version)

I. A Progress Report on the Initiation of Reform and its Effects

1. In accordance with assumptions resolved by the Ninth Congress and approved by the PRL [Polish People's Republic] Sejm, on 1 January 1982 a comprehensive economic reform went into effect in Poland. The restructuring of the way the economy functions began under extremely difficult conditions. However, the reform could not wait. Comprehensive changes in the system became an urgent socioeconomic necessity of vital significance to the nation and the State.

The severe economic crisis, expressed as a marked decline in production and in real income, deep economic instability and in particular the progressive collapse of economic ties, and a sharp cutback on imports as a result of the breakdown in the balance of trade, made more intense by U.S. restrictions and sanctions, as well as those of other capitalist countries--all of these factors complicate tremendously the implementation of the reform. Normal principles of buying and selling and economic mechanisms cannot be used in some economic sectors. We must resort to the distribution of raw and other materials, the rationing of market goods, "tied-in" sale in rural areas and the isolation of special markets ("miners," "newlyweds" and the like). It was necessary to use these methods, and it is still necessary, although they are inconsistent with the ultimate reform assumptions.

We must emphasize however, that the need to make use of distribution during the transitional period was projected in the reform guidelines (thesis 111) and in the laws initiating economic reform. It was assumed that the problems of shortages would be resolved in a manner that would help to eliminate them and would create conditions for the operation of economic mechanisms. This would enable the utilization of all possibilities for limiting the scope of distribution and would prevent the temporary measure of rationing from becoming a permanent fixture of the traditional directive-distributive system. The future of the reform depends on this to a significant degree.

Previous attempts to change the economic system of operation (particularly those made after 1956 and in the first half of the 1970's) demonstrate conclusively that economic instability and distribution were the critical factors that caused the abandonment of reform plans and the return to the directive-distributive system. The history of the Polish economy exhibits its own cycle of system changes in six phases, as shown in the following outline.

Phase I - Economic difficulties associated with reduced social productivity, emanating from the deepening inefficiency of the directive-distributive system and the voluntarism of economic policy. Sociopolitical tensions. A growing sense of the need for economic reform.

Phase II - The initiation of economic reform based on the decentralized operation of the economy and the use of economic mechanisms to spur efficiency and strengthen economic stability; the democratization of social life.

Phase III - The manifestation of conflicts emanating from economic instability and the shortage of production elements and consumer goods. Difficulties with setting in motion trends toward stability. A growing social opposition to the operation of "stability" mechanisms and increasing egalitarian tendencies.

Phase IV - The introduction of rationing and distribution on a broader and broader scale. Growing resistance to decisions that are unpopular with society, but necessary for economic recovery. The gradual curtailment of reform assumptions and the introduction of directive-distributive methods.

Phase V - The taking hold and universalization of the directive-distributive system. The restriction of the share of workforces in management. A reduction in the effectiveness of the economy and, in turn, in its ability to meet society's needs.

Phase VI - A return to a characteristic phase I situation. The beginning of a new cycle of system changes.

Now, 9 months after the reform was initiated, we still find ourselves in crisis conditions, in a special situation that combines some features of phases II and III. The battle--now bolstered by a strong political will that either did not exist or was inconsistent during former periods--is being waged to prevent our entrance into the fourth, fifth and sixth phases, with all of their negative consequences. Breaking the cycle depends upon several factors: first, the extent to which the support of employee workforces and the majority of society is gained for the reform program, i.e., the degree to which they are convinced and believe that the reform lies in the interest of the working class and all working people; second, it depends on economic policy, particularly on the way in which conflicts are resolved; third, on the effectiveness of reform mechanisms, on the skill and flexibility with which they are adapted to conditions and to accumulated experiences; fourth, it depends on the attitude of the management cadre at all levels, on the criteria used to select and evaluate them.

2. The economic reform is being initiated in an unusually bad economic situation that is characterized by a deep decline in the living standard of society. As the report for the first quarter^{*} stated, this fact leads society to think that the decline in the standard of living is the price of the reform; meanwhile, it is the price of the crisis. This false notion of the causes of the decline in the standard of living continues to grow. Some people express the opinion that the reform has taken away society's wealth and social gains in the name of unclear and far-off goals and is thus directed against working people. Society is inclined to assess the economic reform over a short time horizon, mainly on the basis of changes in the consumer goods market. This method of presenting the economic reform is widely used by foreign centers of ideological diversion and falls upon relatively fertile soil, especially since it corresponds directly with the demagogic picture of reform that "will immediately improve the daily life of the people," that arose last year and was propagated by some Solidarity circles.

The view is becoming more and more prevalent that the effects of the crisis are not distributed equally among all social groups. This leads them to conclude that the economic reform that exposes these effects is directed against the working class and other workers' groups. Another factor contributing to this view is the weak policy on the private sector. This makes it very difficult to drum up support for handiwork and small-scale industry and to prevent some social circles from attaining wealth too easily, as well as to check the development of speculation and parasitism. It is tremendously important that these matters be set straight. On the other hand, the activism of the propaganda front should be directed more strongly toward reaching society with the truth about the causes of the lowered living standard and about the various consequences of this crisis, and toward convincing them of the role of reform in overcoming the crisis and in strengthening the idea of social justice. To this end the right language and form of exerting influence must be developed.

Society's understanding the essence and objectives of the reform has a great impact upon socioeconomic policy--it has a direct impact on the way the economy works. This is particularly important during the present stage of implementation of the reform, when there is sharp conflict that emanates from two opposing tendencies. On the one hand, there is the need to quickly put into effect the new mechanism of the operation of the economy, with the resultant need to enforce management discipline with the aid of economic instruments. The restoration of equilibrium, profitable production and export and a general improvement in management efficiency depend on this. On the other hand, social considerations and societal pressures dictate the need to protect society from being exposed too suddenly to the consequences of the crisis by the new mechanism, thus impeding reform processes and extending the period of the restoration of equilibrium. This conflict is reflected in many spheres affected by economic reform, and above all in the system of incentives, in the approach to employment issues, price formation and the like. However, it can and should be resolved by interweaving social and economic policy closely on the basis of reform principles.

^{*}Published in "Gospodarka Planowa" [Planned Economy] 1982, No 6.

3. On the eve of 1982, the reform issue became the subject of a fierce political battle. This affected the attitude of some public opinion factions to the work in progress of restructuring the way the economy functions. The imposition of martial law, restoring order and elementary discipline to society, created the conditions that were indispensable for beginning the reform. On the other hand, the rigors of martial law, and particularly the militarization of a part of the economy, as well as the suspension of the workers' self-governing bodies, delayed the coming into being of the workers' self-government and, in a certain area, of the autonomy of enterprises (depending upon the economic subsector). Martial law also helped to delay the rebuilding of the organizational structure of management (ministerial plenipotentiaries), often reinforcing the dependence of the enterprise directors on founding organs. These obstacles are being reduced and eliminated gradually and consistently.

All spheres of economic activity were included in the implementation of the new systemic solutions of the economic reform, including the sphere of social services, to a considerable degree. This lends full credibility to the declaration of the Military Council of National Salvation that the purpose of martial law was to create conditions and circumstances for the consistent implementation of a program of far-reaching sociopolitical and economic reforms, not to stymie them.

The comprehensive reform of our economic system that began on 1 January 1981 [sic] was preceded by the 1 July 1981 imposition of new principles for the operation of small-scale production and state farms as well as the first stage of reorganization of sector ministries.

In terms of goods and services, the new systemic solutions in the particular spheres of the economy (put into effect on 1 January, but in reality implemented beginning 2 months or more later) included:

--the transformation of state enterprises into autonomous organizational units, the elimination of the former intermediate level of management (unions [zjednoczenia]), the creation of a new organizational structure of the economy (associations [zrzeszenia]),

--the reform of producer and retail prices, as well as of the principles of price formation,

--the restructuring of the financial system of enterprises,

--the reform of planning, statistics and banking,

--the reform of the tax system,

--the reform of the organization and principles of foreign trade,

--changes in the system of materials-equipment supply,

--changes in the principles of remuneration.

An analysis of the changes already in effect leads us to conclude that in general the rate and scope of implementation in particular fields and divisions of the national economy are in line with the reform calendar presented in the reform guidelines. This is noteworthy, particularly in light of the extremely difficult conditions as reform began. In practice changes were made in all fields of the economy.

However, if we use other criteria as a basis of our evaluation of the progress of the reform, the results vary. For example, in terms of basic legal regulations, the implementation of the reform has made the greatest progress; according to the criterion of the definition of executory regulations, parameters and other guidelines indispensable to the autonomous operation of enterprises, and their application to the appropriate economic elements, we have reached the halfway mark; and in terms of the change effected in the way enterprises, state administrative organs and groups of people act in accordance with reform goals, we are only in the initial stages.

A vital element designating the scope of the process of implementing economic reform is the completeness and cohesiveness of the related legal order. Despite a significant effort (17 laws, over 40 resolutions and decrees of the Council of Ministers), there are still several important matters that have not been regulated legally in accordance with reform principles. This refers in particular to the new structure and function of people's councils and the local self-government, and the law on the recovery and bankruptcy of enterprises. These important legal documents are in the advanced stages of preparation; the Sejm should pass them this year.

The linking up of employee earnings with their input and with the results achieved by the enterprise, as well as an understanding of the essence and objectives of the reform in terms of one's own plant are of vital importance in bringing reform mechanisms into everyday life. In many ways, neither of the above courses of action were developed during the past half-year on a universal scale. However, one cannot help noting that the group of enterprises is growing in which these problems are coming to light and are being resolved properly. The movement in this direction has become more intense during the second half-year. Now that the principles of remuneration for 1982 have been outlined and a draft of general wage reform has been published, interest in reform principles and the adaptation of procedures to the new mechanisms in plants are becoming more and more universal.

4. Now that 9 months has passed since the reform was initiated, the question of whether it will yield the expected results is being asked more and more frequently. This is by all means understandable, both from the viewpoint of the hopes of society associated with the reform and from the viewpoint of its unprecedented scope and depth. Our answer to this question must be qualified by several factors.

First, the actual time of operation of the reform is shorter than the "nominal" time (for example, new credit principles were put into effect beginning 1 April 1982, and new principles in building construction took effect during the second half of this year).

Second, one must differentiate the period of introduction from the period during which the reform produces results. Even under the most favorable circumstances, the attainment of basic economic goals of the new economic mechanism, i.e., an increase in labor productivity, the rationalization of employment, the rationalization of the use of production assets, lowered energy- and materials-intensiveness, an increase in quality, stepping up the export rate and its increase and the rationalization of import all take time. The more difficult and complex the internal and external conditions when reform is introduced, the more prolonged the process of attaining these goals. We must take this into consideration when we assess the effect of the reform through the use of statistical data.

Third, many other factors have had an impact upon the national economic situation besides the economic reform. These include: the many years of neglect and structural disproportion that are having a very strong impact on the economy and will continue to do so; the effects of the severe crisis, exacerbated by economic restrictions and sanctions imposed by the major capitalist states; the inertia of economic processes caused by the now apparent consequences of decisions that were enacted several months ago or more (for example, the possibility of early retirement); the impact of the rigors and restrictions of martial law.

There is no method of analysis that isolates the impact of such diverse factors upon real economic processes. That is why after such a short time, we cannot yet ascribe either positive or negative trends or phenomena arising in the economy to the reform. It is indispensable, however, to be aware of the impact of various factors when we assess economic processes and phenomena. This enables a more thorough and accurate interpretation of what is happening in the economy and produces a more accurate hypothesis resulting from an assessment of the impact of the new mechanisms upon real economic processes.

5. Are the reform mechanisms fostering an increase in production and labor productivity? The data for 9 months of 1982 follows. Sold industrial production decreased 5 percent by comparison with a similar period last year, employment declined by 5.4 percent and labor productivity increased by 1 percent. In the processing industry, sold production declined by 6 percent, while in the mining industry it increased by 10.9. The increase in coal mining by 17.1 percent was of special importance to the economy.

The shortage of basic raw and other materials, primarily those imported from the II payments area, has had a crucial impact upon industrial production. During the first half-year, supply import was down 21 percent, declining by 43 percent from the 2nd payments area. Deliveries of imported and domestic raw and other materials generally were 15 percent lower than in the first half of 1981.

Given such a significant decline in raw materials procurement, the 6 percent production decline in the processing industry over 9 months indicates that the mechanisms of the improved utilization of raw and other materials are being set in motion. If they were not in operation, a production decline in the

range of 10 to 12 percent would be expected. There is no doubt that the reform principles have fostered these positive processes.

By comparison with the results in industry in general, the situation shapes up favorably in the poultry industry, where reform principles were applied the earliest (beginning 1 July 1981). For an 8-month period this year, the value of production in this industry increased by 1.6 percent, and labor productivity rose by 7.7 percent. This was the only field of the economy that also showed an increase in production in 1981. Once again, during this period gross industrial production declined approximately 11 percent, and production in the mining industry fell approximately 13 percent.

Between January and September 1982, the rate of production decline systematically fell from -13.8 percent in January to -3.6 percent in July to an increase of 1 percent in August and 4 percent in September. Labor productivity over the 9-month period was 1 percent higher than for a similar period last year, increasing by 7 percent in September 1982 by comparison with the rate in September 1981 (see Table 1).

Table 1. The Decline (Increase) By Comparison with the Same Month in 1981 (In percentages)

	<u>Month</u>								
	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>June</u>	<u>July</u>	<u>Aug</u>	<u>Sept</u>
Industrial production*	-13.8	-10.7	-6.4	-6.3	-2.7	-2.8	-3.6	+1.0	+4.0
Employment	- 4.6	- 4.8	-5.0	-5.7	-5.6	-5.8	-5.9	-5.5	-5.5
Labor productivity	- 9.6	- 6.2	-1.5	-0.7	+3.1	+3.2	+2.4	+7.1	+10.0

*In constant prices.

The increase in labor productivity did not occur only in the mining industry, but in the processing industry as well. In May the increase was 2.3 percent, in June it was 2.6 percent, in July--1.7 percent and in August and September it was approximately 7 percent.

The above pattern does not yet warrant the categorical statement that in August and September 1982 the trend was overturned irreversibly. These results will have to be confirmed over time. In spite of these reservations, however, one cannot help noting that in August 1982 for the first time in 23 months (since July 1980) a production increase was attained.

Polls conducted simultaneously by the Council of Ministers Planning Commission, GUS [The Central Office of Statistics] and the Office of the Government Plenipotentiary for Economic Reform show that the majority of enterprises anticipate continued improvement in production results during the final months of 1982.

6. Is the utilization of raw and other materials becoming more efficient? Both the statistical data and sector reports indicate that in many enterprises a real reduction in the materials-intensiveness of production has occurred. Lowered materials costs (in constant prices) are normally related to a change in the production structure (from more to less materials-intensive), with the use of substitute raw and other materials or with their more efficient utilization. The route toward the reduction of the materials-intensiveness of production was clearly aided by the reform mechanisms, both by virtue of the application of new principles of cost-effectiveness and thanks to the creation of conditions spurring initiatives taken by enterprises to solve their own procurement-production problems.

7. Have reform mechanisms helped to improve production quality? In the first half of 1982, the new mechanisms were not yet able to check the worsening of the quality of manufactured goods that has occurred for some time. On the contrary, this negative trend increased. The severe shortage of materials and component parts with the necessary qualitative parameters had a crucial impact upon product quality, since it meant that producers had to substitute other materials and elements. Reduced consumer demands related to the considerable surplus of demand over supply on the market led to worsened quality of workmanship. In the final analysis this was expressed as an increase in product defects and in a significant reduction in the number of products designated by the qualitative marks "0" and "1" (from 29,700 in the first half of 1981 to 22,600 in the first half of 1982). Thus it may be concluded that when there is a severe shortage of goods, a shortage of reserves, a lack of procurement continuity, poor quality of [text missing from original source] components and the like, the mechanisms are not powerful enough to help improve production quality. This problem must be given serious consideration when the principles of operation of the economy are prepared in 1983.

8. What trends have become evident in the field of employment? Does the system favor its rationalization?

Employment in four major sectors of the material production sphere for an 8-month period this year was 5.1 percent lower (418,000 persons) than during the same period in 1981. Employment declined in industry by 255,000 persons; in construction by 87,000 persons; in transport by 49,000 persons and in domestic trade by 25,000 persons. It should be emphasized that although there was a sudden drop in production in 1981 (by 11 percent), this did not reduce employment significantly (a decline of 0.5 percent); meanwhile, in 1982 the level of employment has dropped by 5.4 percent while labor productivity has increased since the second quarter.

Despite reduced employment, however, the ratio of those employed to the volume of production shows that the employment surplus is still being maintained. There is a trend in enterprises to keep employment steady instead of making changes, even rational ones. In the first place, this is the result of a well-known sociological truth that plants are unwilling to reduce employment, even if this will obviously benefit the other employees. The factor of employee solidarity is operative here. Secondly, in the first half of 1982 there were

many unknowns with regard to the prospects of production development, raw and other materials procurements and the like. This intensified the tendency toward maintaining the employment surplus in anticipation of conditions enabling the full utilization of production potential and the practical use of employment.

Finally, we must acknowledge the weakness of the incentives included in the systemic mechanisms for rationalizing employment that were applied in 1982 under conditions that were totally different from those anticipated. According to forecasts, unemployment was to be one of the major dangers in 1982. In order to safeguard against the consequences of unemployment, the 1982 strategy contained only mild incentives for rationalizing employment in enterprises. Meanwhile, in the first half-year it became evident that:

- despite the decline in real earnings there was an absolute decline in workforce supply, due especially to early retirement and women leaving the labor force (upbringing benefits),

- this decline affected in particular those who do strenuous work, creating severe shortages in nearly all industrial enterprises,

- there was also a switch (or a potential desire to switch) to better paying jobs such as mining and private sector jobs. This had a tremendous impact upon the construction industry in large urban centers,

- given this situation, the incentives for rationalizing employment (a reduction of up to 5 percent of the financial burden imposed by the average wage increase earmarked for the FAZ [Occupational Activation Fund]) were too weak to overcome enterprise fears that they would lose more of their workforce (many enterprises did not take advantage of the possibility of increasing wages in this manner).

Given the growing disharmony between workforce supply and demand in particular locations, the economic system for 1983 must include stronger mechanisms for encouraging enterprises to adapt employment to production and to rationalize the employment structure.

9. Has there been progress in the field of foreign trade? The results achieved in foreign trade during the past 8 months of 1982, although falling far short of the economic need for foreign exchange, indicate the commencement of favorable trends. If maintained and strengthened in the future, these trends will have a marked impact on the speed with which we emerge from the crisis. The end of the declining trend in export is noteworthy. This is primarily the result of an increase in mining and the export of coal and other raw materials. Over a 9-month period this year, export increased by 5.5 percent by comparison with a similar period last year. An increase in exports to countries of the 1st payments area (by 13 percent) was a major factor here. On the other hand, there was a decline in exports to the II payments area by 0.7 percent, and a decline in imports from this area by 28.2 percent. However, the export rate to the 2nd payments area is improving systematically. In the first half of 1982,

it declined by 7.5 percent, while in the third quarter it increased by 14.5 percent (including 14.8 percent in August and 25.7 percent in September).

During the 9-month period, exports exceeded imports by more than 56.3 billion zlotys (export--654.9 billion zlotys, and imports--598.6 billion zlotys). The change in the proportions of turnovers with the 2nd payments area is especially significant: export amounted to 337 billion zlotys and imports amounted to 249 billion zlotys (for a positive balance of 88 billion zlotys).

To a significant degree, the excess of export over import was determined by external factors, particularly the credit restrictions and limitations of capitalist states. However, the share of export in industrial production is clearly on the rise. This was especially noted in August and September. These trends should be strengthened in conjunction with the August 1982 introduction of additional incentives stimulating export production.

10. The favorable impact of the new reform mechanisms is observable in the PGR [State Farms], where they were first introduced (beginning 1 July 1981), PGR autonomy in developing production plans and the introduction of cost effectiveness and incentives for making progress were to have been used to improve the structure of activity of these farms to make them more efficient. Favorable changes have been noted in the production structure, particularly the adaptation of the type of sowing to soil-climatic conditions, an increase in the share of grain in sowings in general, the adaptation of the number of head of livestock in particular enterprises to their fodder potential, and the use of cost effectiveness in organizational-economic decisionmaking.

This is all the more noteworthy in that despite attempts, these processes were not implemented under the former system of management.

11. There are serious problems in ensuring the effective operation of reform mechanisms in construction. This is the most ailing economic sector, where the crisis is especially severe. What is all the more disturbing is the fact that the process of adapting construction to reform principles and conditions is occurring very late. This is due to the lack of effective and mutually integrated actions taken by state (central and local) administrative organs and the enterprises themselves to overcome numerous structural, organizational-legal and economic barriers. This is particularly evident in the lack of flexibility for adapting the organization of the production of enterprises to the volume and structure of tasks. This affects economic results of enterprises, mainly of general construction, and puts them on the defensive (requesting subsidies), in which they are bolstered by some founding organs. There have been serious delays in the conclusion and renegotiation of contracts between investors and construction enterprises, partly because the question of construction prices was settled too late.

In accordance with Council of Ministers Economic Committee decision No 17, credit was denied to 30 construction enterprises that lacked creditworthiness. This was done to force the appropriate administrative and enterprise organs to take decisive steps to improve organization, eliminate waste and increase

efficiency. Unfortunately, in many instances, the initiatives of founding organs and enterprises run in the direction of "haggling" over favorable conditions (price increases and subsidies) and not toward making indispensable changes in enterprises to improve economic results. At the same time, there is the danger of the demagogic proclamations that "the refusal to grant credit is being imposed in accordance with reform principles but runs counter to the interests of those who are waiting for housing." This is fundamentally a false view. The use of the reform principles to compel greater efficiency does lie in the interest of those who are waiting for housing, since it ultimately means that more and cheaper housing will be built.

12. The experiences of the first half of 1982 lead to the assertion that the effectiveness of the new mechanisms is largely dependent on the proper adaptation of a pricing-profits policy to crisis conditions.

In the first half of 1982, there was a broad reform of producer and retail prices, the purpose of which was to attain the following objectives:

- the creation of the foundations of genuine cost effectiveness at the level of the enterprise and the entire national economy, by tying-in the purchase price of basic raw and other materials with the level and ratios of these prices on the worldwide market;
- the restoration of trends toward attaining market stability both in the area of consumer articles and supply goods;
- the creation of conditions for dispensing with production subsidies.

As a result of the reform in producer prices, there has been a radical increase in the price of basic raw materials, particularly fuels and energy. This has led to the profitability of production in the raw materials industry, with the exception of the coal industry, while restricting excessive profits in the processing industries.

However, the primary goal of the producer price reform has not been implemented fully--i.e., the creation of conditions for genuine cost effectiveness at the enterprise level by tying in the price of basic raw and other materials with their free foreign exchange prices. The reason for this was the disparity between the currency exchange rate used to designate new producer prices and the rate put into effect on 1 January 1982 for clearing of accounts in foreign trade. This had the consequence of creating another disparity between the level of domestic producer raw and other materials prices and their actual transaction prices.

At the same time, a retail price reform was carried out, whose basic objective was to create conditions for attaining market stability and a fundamental improvement in the ratio of food prices to the prices of manufactured goods. The change in retail prices included an increase in official prices of food, fuel, energy and stimulant beverages, as well as an increase in contract and regulated prices resulting from the increase in production costs that followed the change in producer prices.

The change in retail food prices yielded:

- a significant improvement in the ratio of prices to costs and the ratio of retail food prices to the procurement prices of farm products,
- a relative increase in the price of basic food items,
- a restoration of market stability; the elimination of shortages; the elimination of shortening of lines,
- a significant reduction in the absolute volume of subsidies to food production and a reduction of their ratio to the value of food sold.

The retail price reform created conditions for restoring general market stability and reducing the inflationary gap significantly. The increase in contract and regulated prices of manufactured goods and the uncompensated increases in official prices were of vital significance in absorbing excess purchasing power.

The reform in producer and retail prices eliminated to a considerable degree the irregularities of the former pricing structure. However, it did not solve all problems.

The fundamental irregularities of the present pricing system, whose gradual elimination is to be the primary objective of pricing policy up to 1985, include:

- the disproportion between the purchase prices of basic raw and other materials, and their transaction prices, destroying cost effectiveness at the enterprise level,
- the disproportion between the prices of most food items, agricultural means of production, some construction materials and human services and their production costs, making necessary the use of significant budgetary subsidies.

The operation of contract prices is a problem of special importance for the implementation of new systemic solutions. Goods and services covered by contract prices represent the bulk of all turnover in the means of production and consumption (see Table 2). These prices were to be set on the basis of market conditions, in line with supply and demand ratios. In reality, they approach regulated prices to a considerable degree; market ratios generally are not considered when these prices are set. They are based on producer costs and desired profit, in which profit is calculated to be enough to pay the earnings tax and to cover envisaged enterprise needs (salary increases, repayment of credit, investments and the like).

Table 2. A Comparison of Official, Regulated and Contract Prices (In percentages)

<u>Prices</u>	<u>Retail Market</u>	<u>Producer Market</u>	<u>Farm Product Procurement</u>
Official	37	19	72
Regulated	15	5	--
Contract	48	76	28

In the social sense, the price increase that took place in the first half of 1982 is associated with enterprise pricing "license" in general. Meanwhile, the primary cause of this phenomenon was the change in the official prices of the basic means of production, while the increase in contract prices was a secondary process that adjusted the value of the production flow to the new value of material input.

This view is substantiated in the results of an analysis of the movement of prices during the months that followed the initiation of the reform. There was an especially sharp increase in prices in February and March, when they were adjusted by producers to the new higher producer prices. Since April, however, the pricing market has stabilized. This is illustrated by the data in Table 3.

Table 3. Price Increases (The previous month = 100)

<u>Item</u>	<u>Month</u>					
	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>
Total price of goods and services purchased by consumers	115.7	140.9	136.5	103.2	102.3	99.9
Including:						
Food	111.7	192.6	103.6	103.0	104.2	98.1
Non-food items	107.8	129.7	116.1	104.2	101.0	100.6
Including:						
Clothing	101.2	115.7	125.3	105.2	103.4	101.1
Household items	132.6	151.9	119.7	106.8	101.5	101.9
Services	112.7	121.1	101.9	106.0	102.2	104.9

Despite the higher price increase during the half-year, market stability was attained only in a few fields. This is due to two factors: the crucial sharp decline in the production and delivery of many non-food consumer items; and the price-setting policy of enterprises. Clearly, the supply-demand ratio was

not an important factor in the setting of contract prices; the determining factors were producer costs and projected profit for the enterprise.

First, enterprises making a large profit were not interested in increasing it because of the sharp climb of profits taxes at the upper reaches.

Second, the pressure of public opinion, the authorities and party organizations as well as price controls held back the trend toward asking higher prices, despite the fact that market considerations made this possible.

In spite of some improvement, the situation at mid-1982 is marked by a continuing severe market and financial instability. Since March 1982, the consumer monetary outlays have exceeded earnings. This gradually restores the balance between individual earnings and market deliveries. During the second half of 1981, for every zloty of individual income there was 0.67 zlotys of goods delivered to the market; during the first quarter of 1982, this index reached 0.80 zlotys, and during the second quarter, it reached 0.89 zlotys. During the second half of 1982, however, these indexes may decline if stepped-up production activity and an increase in market deliveries do not keep pace with increased earnings (due to wage increases in the budgetary sphere, an increase in social services and the introduction of new principles of remuneration in enterprises). Every decline in this field will hamper severely the continued effectiveness of the reform.

The continuing high surplus of consumer purchasing power over the available supply of goods is a basic problem. This is exacerbated by large shortages of goods and a very low level of reserves.

At the end of the first half of 1982, the ratio of reserves in the socialized market to the financial resources of consumers was 23 percent compared with 25 percent in 1981. It is impossible to meet the current market demand for goods and services even with the large increase in prices. The potential for increasing supply remains severely limited both in material and foreign exchange terms.

This situation is aggravated by the deep deficit in the state financial system, and especially its budgetary outlays, which are now a major cause of inflation.

In light of existing social pressures, what are the real possibilities for implementing the policy of reducing budgetary outlays?

There is no real answer to this question. Nonetheless, we do know that the financial gap is too large, and the accumulated disproportions are too great for us to expect the economy to attain rapid stability through budget cuts. In any case, cost-cutting is an important direction toward which economic policy should be directed. However, it alone will not solve the problem.

The following are indispensable for the attainment of financial-market stability:

--the consistent implementation of a policy of structural changes in production prepared within the reform framework through the unhesitating bankrupting of those enterprises that are inefficient and do not fit into domestic procurement potential;

--the recognition of the need to conduct a policy of a further phased-in increase in prices, i.e., moderate price inflation; this will ultimately eliminate subsidies enabling the use of incentive mechanisms;

--the strict verification of costs and of the amount needed from the budget whenever a subsidy is requested;

--the reinforcement of the mechanisms for stepping up production by eliminating existing gaps in the legal regulations that cover the operational principles of enterprises, in particular the principles of taxation, price creation and remuneration. This should help to tie in enterprise income and employee earnings more closely with the real increase in the volume of goods and in worker input.

The market situation is not determined merely by the supply-demand ratio, but also by the operation of trade, which can ameliorate or increase market difficulties. According to estimates made by the Ministry of Domestic Trade and Services, the distribution and rationing system covers approximately 50 percent of the total value of deliveries, including about 75 percent of food item deliveries and about 30 percent of manufactured goods deliveries. To a great extent, the scope of distribution is so vast because of the shortage of goods. It is also partly due, however, to the schematic approach to the rationing question and to the slowness at finding new forms and methods for resolving market problems.

Not only does the administrative steering of the market stymie the restructuring of domestic trade and its demonopolization, it also increases the shortage of goods.

This is an extremely dangerous tendency that is not declining despite the efforts of the trade ministry to counteract it.

During the first half of 1982, the rebuilding of the organization of domestic trade was begun. Decisions were made concerning the elimination of subbranch and territorial divisions of the operational zones of the various trade organizations. This is being implemented with much resistance and difficulty.

13. The role of the credit system under economic reform conditions is growing considerably. Its basic function is to force and enforce the principles of enterprise self-financing. Under the new conditions, bank credit is used to supplement an enterprise's own funds for running activity and for development in accordance with economic plans.

In the first quarter of 1982, the basic economic-organizational conditions enabling the introduction of new principles of credit were not fulfilled. These

include: the price reform that is being implemented, the re-assessment of reserves and the delays in establishing the area and scope of budgetary subsidies. As a result, enterprises could not prepare reliable plans and programs of action, costs and financial results based on real premises; thus, they were unable to specify how much credit they needed to supplement their own funds. As a result, in the first quarter, financing was done out of enterprise funds and emergency credit. The principle of repayment ability was not applied, since the bases did not exist. The new credit principles based on the ability of enterprises to be self-financing could then be initiated in the second quarter, and in construction in the second half of 1982.

The guarantee of repayment became a major factor in the granting of credit. Beginning with the second quarter, banks started to examine credit requests made by enterprises for 1982 from this viewpoint and then entered into negotiations with them. The minimal criterion of credit worthiness became the profitability of current activity in 1982; whether procurement and purchasing plans were realistic was also considered. An analysis of more than 23,000 credit requests showed that the financial and economic situation of the vast majority of enterprises and the forecast through 1982 enable them to be granted normal turnover credit.

Given the uncertainties regarding procurement in the second half of 1982, and the lack of an accurate summary of enterprise production costs for the first half of 1982, and especially for the first quarter, a number of enterprises obtained credit for periods shorter than the entire year, with the stipulation that future credit would be contingent upon the credibility of financial results and a conformation of procurement potential.

The major reasons for denial of credit by banks were:

- the failure to achieve financial results in the first half of 1982 that guaranteed the self-financing of further activity,
- the failure to make use of production capabilities, and difficulties in purchasing manufactured goods,
- the unfeasibility of plans of economic and financial activity for 1982 submitted to banks.

Most of the enterprises that were "in trouble" (550) were guaranteed future credit either by submitting programs of economic recovery that were approved by the banks (200 enterprises) or through the guarantee of the founding organ.

Banks denied future credit to 103 enterprises (including 25 industrial and 31 construction enterprises) whose economic recovery programs did not guarantee that they would regain their creditworthiness, or who did not prepare such programs and did not obtain relief or subsidies in some other way. These enterprises employ 69,500 persons, and their production in the first half of 1982 amounted to 25.3 billion zlotys. These matters are being analyzed and negotiated further.

A negative assessment of the creditworthiness of enterprises made by banks was looked upon by many enterprises as a violation of the principle of autonomy. This was promoted by the position taken by some founding organs who tried to put off the operational strictures of the banking system to a later date and exerted pressure on them to make credit decisions that were contrary to the accepted principles.

Thus, it is indispensable that bank credit be used only as a source to aid profitable and effective economic activity. The financing of activity that is being propped up for reasons that are other than economic should be based on some other principle. While this is true in theory, it is not observed enough in practice at all levels, particularly in the face of the difficult economic and budgetary situation. Such valid credit preferences as a lower rate of interest or priority access to credit should be outlined generally in the form of guidelines of monetary-credit policy of banks that are then confirmed by the Council of Ministers and the PRL [Polish People's Republic] Sejm.

The mechanism of budgetary subsidies should become tied in directly with specific products; in other words, goods and services rather than the plant and equipment should be the consideration.

Beginning in 1983, our notion of credit worthiness must be expanded to include not only current profitability but also the financial prospects of enterprise activity over longer periods in association with long-term plans.

This idea is related to the use of a higher interest rate (12 percent higher, for example) wherever credit recipients attain favorable financial results not through an increase in production, a reduction in production costs and greater efficiency, but by raising prices. Such enterprises ought to be treated as credit risks that do not guarantee effective operation in the future and thus may not be able to repay credit. In time such enterprises may be granted credit at a higher interest rate based on the greater risk.

In order to regulate the legal bases of enterprise recovery process and enterprise bankruptcy rulings, it is necessary that work on the draft of a pertinent law should be stepped up and that the draft should be submitted to the Sejm in time for it to take effect not later than 1 January 1983.

14. The impact of new systemic solutions on enterprises has become evident in particular in the sphere of operational planning, in the use of cost effectiveness in the shaping of internal organizational structures and in the approach to relations with the "community."^{*}

During the past 9 months, in most cases enterprise plans were prepared independently. The methods of preparing operational-economic plans were changed.

^{*}The description of enterprise attitudes is based upon several polls conducted by the Office of the Government Plenipotentiary for Economic Reform and the Institute of Management Organization and the Improvement of Managerial Cadres.

As assessment of enterprise procurement and purchasing possibilities was used as the point of departure. In order to guarantee the feasibility of their plans, enterprises generally prepared many variants. The share of internal organizational units (plants and divisions) in developing enterprise plans also increased. The polls conducted in enterprises indicate that changes in enterprise planning procedures increased their feasibility and stability considerably. Only a few enterprises made changes in the plans during this period in spite of major uncertainties concerning management conditions. In the planning process, enterprises also became more cognizant of the indirect impact (as they termed it) of the Ministry of Finance, banks, the Ministry of Labor, Wages and Social Affairs and the Office for Price Affairs. On the other hand, the impact of the sector-subsector ministries, organs of authority and the local administration and local political echelons decreased. There are signs of fear and mistrust in enterprises regarding the stability of the parameters and instruments used by the central economic office and the "heading off" of this phenomenon by setting up reserves in the plan in the event that the cost effectiveness parameters of the enterprise become worsened.

In spite of the great uncertainty regarding the ultimate form of systemic solutions within the organizational structure of enterprises, tendencies have begun to arise toward increasing the economic autonomy of organizational units and attempts have been made to use internal cost effectiveness and to relate the pay scale to the economic results of particular organizational units. At the same time, actions are underway to simplify organizational structures, and to adapt internal economic systems and incentives to new needs. This process was stepped up following the introduction of Council of Ministers resolution No 135/82 concerning the adjustment of certain principles of state enterprise employee remuneration to economic reform principles.

In the sphere of outside relations, enterprises are aiming to rationalize both the scope and the conditions of cooperation from the viewpoint of costs and results. They are withdrawing from ineffective co-production, they are looking for lower-cost suppliers (i.e., those having a lower selling price and lower transport costs), they are making direct contact with suppliers and they are trying to be competitive wherever possible (for example, changing foreign trade enterprises to reduce the profit margin and the like). One observes tendencies in enterprise activity toward a reduction in their own production costs.

The degree of change in the operation of enterprises varies. It is possible to distinguish two basic types of enterprises. The first type includes those enterprises who had a good economic situation and solid management at the outset. These are characterized by a faster rate of change and a great deal of readiness to accept and adjust to the new principles of operation. The second type includes those enterprises who have economic difficulties and are adapting considerably more slowly as a result. These have not been totally consistent in observing the basic principles of reform--enterprise self-financing and autonomy. In difficult situations, enterprises in some economic sectors tend to resort to administrative intervention to solve their problems, even though they admit that this was not effective in the past. Sometimes their actions take a revindictory turn, involving general or (most often) individual changes in economic parameters and systemic solutions.

In the sphere of rebuilding the organizational structure, enterprises continue to be the most passive. As a rule, such new organizational structures as unions [zrzeszenia] arise out of the initiative of founding organs. As many enterprises point out, their passivity in this sphere emanates from the fear of consequences, primarily in the field of the procurement of distributed means of production. It is also rare for an enterprise to enter into a legal battle in quarrels with state administrative organs who, in the opinion of enterprises, are violating the rights and autonomy of enterprises.

In the economic policy of enterprises, the role of cost effectiveness has come to the fore, becoming evident in the changed planning procedure and methods as well. Thereby, enterprises are responding considerably more strongly than in the past to solutions in the economic system; they are also responding to the parameters of this system over the short term. In this way, two parallel goals emerge in enterprise cost effectiveness: the maximization of workforce earnings and the development of the enterprise. This is an especially important feature, particularly when one is confronted with the view that autonomous enterprises will not worry about the future.

The approach of some enterprises to the use of certain systemic principles (their inconsistent observance of self-financing requirements and the broad scope of budget subsidies) engenders their complacency while being detrimental to the rate and effectiveness of development.

The scale of progression of the earnings tax and the system of deductions for the FAZ are widely criticized by enterprises. In this context it should be emphasized that when the parameters of the economic system and particularly of FAZ deductions were established, one of the objectives was to equalize the opportunity of enterprises as they embark on economic reform. Thus the reason for the sharp progression in the earnings tax. This was dictated by the large-scale transformations made in the economy in 1982, and particularly by the price reform (both the increase and the change in the principles of price-setting). Changes in the structure of economic values in the first half of 1982 led to great differences in the economic situation of enterprises. The implementation of a budgetary law for 1982 in the area of the earnings tax showed how difficult it was to evaluate the financial situation of the national economy definitively. The annual payment of the earnings tax planned in June 1982 in the budgetary law was implemented in August with a surplus of 24 billion zlotys, or 106 percent; thus it had been grossly underestimated in the budget. This comes as no surprise during such a period of sudden and deep change, when all forecasting methods are frustrated. Nonetheless, after the first half of 1982, the economic situation both of the economy and enterprises did not become more stable. This enables us to look at those changes in the parameters of the economic system that would foster an increase in the dynamism of enterprises and their developmental expansion for next year. A modification of parameters and systemic solutions in this direction is indicated for 1983.

In particular, the principle and scale of the financial burden of wage increases should be modified to exert pressure toward rationalizing employment and to create conditions for attaining greater increases in average salaries, but only

by increasing production or improving management efficiency. In order to counteract the accumulation of excessive profits by enterprises due to price increases and to check such increases, it is necessary to create a system whereby the budget absorbs the unwarranted results of price increases. The possibility should be considered of initiating an anti-inflation tax that would direct into the budget all amounts that result from price increases and cannot be justified by an increase in the cost of materials. This would simplify the earnings tax and would do away with the steep progression in this field.

To generate strong pressure toward improving production quality and the better management of means, a category of unjustifiable costs and losses, increasing the earnings tax base, should be introduced into economic practice. This category of costs and losses should include all fines paid by the enterprise, particularly fines for poor quality, environmental pollution, failure to observe BHP [industrial safety and hygiene] conditions and the like, as well as losses due to the waste of utility refuse and raw and other materials, and the cost of compensating for external shortages. The matter of the depreciation of machinery and equipment that are out of order also must be resolved.

In order to stimulate enterprise development, it is necessary to introduce a broad range of relief measures in the earnings tax. Such reduction should encompass the following areas in particular:

- export production at the enterprise's own expense,
- an increase in production quality,
- the production of standard products covered by official or regulated prices,
- solving engineering problems by using domestic technological progress,
- the management of local raw materials and wastes,
- fuel and energy conservation,
- environmental protection,
- educational and cultural activity conducted by the enterprise,
- special undertakings specified in the NSPG [National Socioeconomic Plan].

These reductions should be automatic, i.e., the enterprises themselves ought to be able to make the deductions.

It is indispensable that work to reassess fixed assets be completed in order to make cost effectiveness more realistic at the enterprise level and to ensure conditions for the proper management of the production apparatus. This work should be completed during the first half of 1983.

On the basis of regulations contained in Council of Ministers Resolution No 243, a system of foreign exchange credits was initiated as a general source of

increasing enterprise free foreign exchange funds. While this system has been successful, it needed some revision. This was done within the framework of Council of Ministers Resolution No 134, concerning state enterprise use of part of their foreign exchange income from the exportation of goods and services.

According to statistical data, by the end of September 1982, 1,178 enterprises were participating in the foreign exchange credit system, and 362 accounts had been opened for them, as well as 24 accounts for co-producers.

The law concerning the right to carry on foreign trade made it possible for producers to gain concessions and to act on their own behalf on the foreign market. Thus far 74 concessions have been granted.

15. A vital element of economic reform is the rebuilding of the organizational structures of the national economy, which includes adapting the organizational structure of the state administration to new functions that emanate from the change in the status and nature of managing organizational units.

This aspect of the national economic reform process, which is tied in very closely with the creation of a new structure of economic policy jurisdiction, is developing relatively slowly and has encountered many obstacles and delays.

At the central management level, structural changes have been made thus far in the so-called sector-subsector ministries. The first phase of the process of changes in the organizational structure of central economic management indicated in proposition 27 of the reform guidelines took place in July 1981 and led to the partial rebuilding of this structure.

These ministries are gradually adapting the principles of their operation to the new conditions created by the economic reform laws. In the opinion of enterprises, they are not doing it fast enough. The lack of harmony between the current interventionary functions of the ministries and their strategic functions that emanate from the reform principles has created a basic barrier in this regard that is not likely to be eliminated under present conditions.

The lack of clarity concerning the principles of cooperation of sector-subsector ministries with the official ministries also keeps them from performing their new functions effectively. Now that they have gained some experience, however, it will be possible to prepare a basic "catalog" of the functions and instruments of operation of this group of ministries.

The new functions, tasks and powers of chief state administrative organs of an official nature (the Council of Ministers Planning Commission, the Ministry of Finance, the Ministry of Labor, Wages and Social Affairs) as well as the Council of Ministers, the Government Presidium and the committees of the Council of Ministers must also be defined in terms of the conditions of the new system. Work on the institutional adaptation of the status of these organs to the new conditions is in various stages of completion.

During this last period, employment in the central administration was cut by about 6 percent. Employment within the group of so-called sector-subsector

ministries showed a much greater decline (about 35 percent). However, state administrative organs are calling for an increase in employment more and more frequently. The solution of this problem must be comprehensive and it must observe current regulations consistently. Otherwise, the old administrative structure will be resurrected and the workforce in the central administration will grow.

16. The thoroughgoing decentralization of economic management in the territorial structure was executed during the past half-year. The powers and responsibilities of local organs of the state administration [TOAP] fundamentally were broadened to include local economic activity. As decentralization proceeds, conditions are being created that foster the process of more democratic management, primarily by increasing the role of representative organs in initiating and directing socioeconomic development in the given locale. Economic reform is also changing the status of enterprises with regard to local organs of the local administration.

As yet, the principles of organizational-systemic cooperation between economic organizational units and local organs of authority and the state administration have not been prepared. This refers in particular to the methods of having an impact upon enterprises and economic units (both those that are supervised by TOAP and those that are not under its supervision, but operate within the particular locale). The operation of the decentralization process is making it urgently necessary that the entire local structure fall under a regulatory system. The basis of such a system will be the law on people's councils and the territorial self-government, which sets up the legal-institutional base for future structural-organizational and economic-financial transformations. The lack of a law has hampered the definition of the methods and tools to be used by the local manager both in fulfilling his own tasks and those coordinated by TOAP; it has also impeded the division of powers and responsibilities among organs of the territorial self-government and local organs of the state administration.

In spite of the existing barriers, the process of TOAP's taking on the function of founding organ at the voivodship level for construction, agricultural, municipal management and housing enterprises has been completed. However, the tendency continues for units at the voivodship level to concentrate their powers within the sphere of economic activity at the expense of restricting the role of the basic elements of authority and the state administration.

The assumption by voivodship organs of the state administration of a broad area of management powers and responsibilities has made it necessary for the organization and operation of voivodship and basic level offices to be adapted to the new tasks. This has taken place mainly by the appointment of boards as organs assisting the voivodship governor or by reinforcing the appropriate departments within the framework of voivodship offices. In some regions, one sees a tendency for boards to take on the functions of liquidated unions [zjednoczenia] and the tendency to make use of the identical methods and forms of acting upon enterprises that operate according to general principles to serve the public. Proposals have been made to grant construction enterprises

the general status of public service enterprises in order to protect them from the strictures of self-financing. The premises underlying such proposals are understandable, particularly in view of the urgent need to keep construction going, but in the long run this would have a negative impact upon the process of straightening out construction and improving its efficiency, and thereby upon the economy's ability to meet housing needs.

A task of extreme urgency is the preparation of instruments and methods in accordance with reform principles to enable local organs of the state administration to perform their local management role effectively with regard to state enterprises, cooperative enterprises and other units.

17. The process of liquidating unions [zjednoczenia] is in the final stages. The liquidation of militarized unions is also proceeding in phases. By the end of 1982, the institution of the so-called plenipotentiaries of the ministers for affairs of separate production structures will disappear.

The creation of enterprises associations [zrzeszenia] is of crucial significance to the process of rebuilding the organizational structure of the economy. In general this process has been taking place under the resistance of the economic situation, and the difficulty of procurement shortages in particular. These factors have had a vital impact on the nature of the newly appointed associations. Most enterprise associations appointed thus far are by nature sub-branch associations, encompassing the former union structure in scope and creating organizations that are monopolistic in intent. One of the exceptions here is in the search for contractual coproduction partners. Both a large number of enterprises as well as the sector-subsector ministries are interested in the sub-branch association system. The sector-subsector ministries are inclined to treat associations as the intermediate management level.

Society seems to be disturbed by those tendencies it sees as a threatening to the resurrecting of the hierarchical management structures. This shows that the reform guidelines have undervalued the strength and resistance of bureaucratic structures. In reality, the present formal-legal system of reform does not include enough safeguards in this area. An antimonopoly law is needed. The move toward sub-branch associations, and particularly toward the creation of centralized settling of profitability accounts (at the association level) has the purpose of sheltering enterprises against the consequences of their own uneconomical management, and of shifting the costs of their failure to adapt to social conditions and needs to their weaker partners (consumers). In this regard, a proposal is being made to adopt the principle of covering association dues out of profits, and not adding them on to the cost burden. Another proposal states that associations should be denied registration in the courts without getting the opinion of specialized organs of authority or the state administration concerning the advisability of setting up the given association.

Obligatory associations have the purpose of grouping together, in accordance with the law, enterprises dutybound to safeguard specific economic functions desired by the state.

There is a great deal of evidence that the tendency to preserve the middle management level encumbers the forms of enterprise grouping and cooperation within the association framework. This is expressed in the tendency of some ministries to create the greatest possible number of obligatory associations and to force the rights of these associations that are very similar to the rights of the liquidated unions.

Our experiences thus far have shown that the laws regulating the organizational structures of management did not take all issues into consideration. A weakness of the legal regulation on associations, for example, is that it covers only state enterprise associations. The problem of the actual participation in association activity of organizational units that are not state enterprises (for example, scientific-research institutes) can be solved by not registering agreements. Nonetheless, the lack of legal regulation is a serious limitation of this form of integrating organizational units.

18. Ultimately, the deciding factors in the restructuring of the way the economy functions and in socioeconomic progress are workforce attitudes and management cadre attitudes. To a great extent, the workforce feels intuitively that the reform is something good, bringing progress and hope for improvement. The reduction of the living standard and the burdens of daily life, the lack of prospects for radical and rapid improvement, supply problems and the difficulty of maintaining the production rhythm all have a destructive effect.

In order to counteract these tendencies, enterprises themselves must take resolute action to:

—"translate" reform principles into specific endeavors for making enterprise activity more efficient;

--initiate plant remuneration systems that are closely tied in with labor productivity;

--resume the activity of employee self-governing bodies.

The situation in each of the above cases is very different. The most important factor molding workers' views of the reform is practice, the endeavors of the management cadre in plants. One observes positive trends in this area. These are attributable above all to the 1 July initiation of new principles of remuneration and also to the gathering momentum of the process of renewed worker self-government activity.

The following data characterizes the process of the resumption of self-governments: on 1 July, the number of motions made to repeal the suspension of self-government activity was 147, and the number of decisions to resume activity was 16; by 20 August, the number of motions was 560 and the number of decisions to resume activity was 175; meanwhile, representatives of more than 300 Workers' Councils participated in the 15 September meeting of the Sejm Commission for Self-Government Affairs.

When the process of reactivating the workers' self-government is conducted by TOAP, it takes place much more rapidly than in "key" enterprises. This is due to the fact that the local authorities are more familiar with the economic and sociopolitical situation in the enterprises under their supervision.

The resumption of self-government activity is gaining ground with every passing day. The real obstacle here is not the particular procedure that is used for removing the suspension of operation of a given self-government: the tempo and scope of this process are determined on the one hand by the readiness of the workforce to resume the activity of self-governing organs and on the other by the awareness of the enterprise managerial cadre, the state administration and party elements that the workforce self-government is a vital opportunity for breaking down social passivity and stagnation. The accepted principle that the removal of the suspension of self-government organs while martial law is still in effect will fulfill all functions and possess all legal rights except for the right of appointing and removing the director increases the credibility of the authorities.

Throughout 1982, the management cadre increasingly showed an active interest in the solutions, the problems and the opportunities of economic reform. Most of them saw in the new solutions the opportunity of becoming more active themselves, as well as of their own self-realization. This makes the cadre well-disposed to the reform. It has been generally discovered, however, that the processes of finding new solutions adapting general reform principles to the specifics and individual attributes of enterprises are usually the result of the work of relatively small management groups. These processes have little penetrative force due to a lack of initiative and caution and because of the stagnation of the rest of the cadre. The implementation of the principles of enterprise autonomy and the related idea of responsibility encounters barriers that are difficult to surmount among that part of the cadre that grew up under the conditions of the previous system and the values that shaped it. This group also suffers the consequences of the political and social frustration that occurred during the post-August period. In many cases this group is not sure of its authority among workforces; it has basic problems with the aktiv and with the competent implementation of new tasks. It also possesses relatively little familiarity with the new potential and principles of enterprise operation. Too little attention has been given thus far to ensuring that the middle management level understands the new operational principles of enterprises and to involving it in its implementation. This has a tremendous impact upon how thoroughly the reform penetrates the plant and upon the attitude of the workers to the reform. At the present stage, the plant should become the main center of the struggle for better work organization and greater work productivity, and for the consistent inculcation of the reform into daily practice.

19. The preservation of law and order in the national economy is of crucial significance to the process of implementing economic reform. The new structure of legal sources in the national economy is an expression of the implementation of this principle, including the adoption of the absolute principle that reform ventures are to be based on legal regulations. It should also be pointed out

that law and order in the economy means not only a structure based on the law of the system of economic relations, but also the observance of mandatory law by the organizational units entering into these relations.

As a result of the verification that began a year ago, whose purpose was to adjust legal regulations to the new conditions, 753 documents of the Council of Ministers and the Government Presidium were repealed during the first stage. Most of the repealed documents concerned the organization and operational principles of state enterprises, economic planning, prices, the financial management of units of the socialized economy, their taxation system and the like.

Our experiences have shown that shaping a new role for the law in the national economy meets with many obstacles. These emanate primarily from the failure of organizational units to adapt to the changing character of legal instruments and their new role. As a result of longstanding practice, there is frequently a tendency in organs of the state administration to regulate by law as broad an area as possible of activity of economic organizational units. These in turn lack faith in the broad scope of their own rights and demand that the legal regulation framework be replaced by detailed or casuistic solutions.

There is a general tendency in the work of administrative organs to freely interpret the regulations of the law toward a specific end. This leads to a situation in which the purpose of laws becomes distorted, for example, in the appointing of directors (of the more than 600 enterprise directors appointed this year, only 40 were appointed competitively), the formulation of proposals, association agreements and statutes and the arbitrariness of setting up enterprise divisions.

A weakness of the mandatory system of law in the national economy is the still existing broad area of ministerial legal regulations. In spite of the campaign conducted to verify ministerial legal regulations, which pared them down considerably (by 31 July 1982, 4,863 ministerial documents were repealed), in many instances the documents that remain in force still do not meet the needs of the reformed system, nor do they fit into the new system of legal sources, due to the lack of a legal foundation. This situation must be changed; moreover, the work being done on the executory documents of the laws should be an opportunity for continuing work on straightening out ministerial legal documents. The dualism of legal regulation still exists during the transitional period based on the binding force of both new documents and some old documents. This should be replaced as soon as possible by a comprehensive new legal regulation that encompasses all economic organizational unit spheres of activity of those that are in need of regulation. In spite of the broad scope of the new legal documents, there are still many gaps in the law. The needs in the field of economic legislation are still considerable--their implementation is a necessary condition of the cohesive, proper operation of the new economic system.

II. Guiding Recommendations

An analysis and assessment of the first stage of implementation of the new principles of economic operation shows that in some spheres the system is not "airtight," that some problems have not yet been resolved in their entirety and that new problems have arisen. An analysis of specific mechanisms, on the other hand, shows that they need to be revised to adapt them to the changed economic situation and the forecasted situation.

The main activities in this area should encompass three basic groups of problems:

- solutions within the system and specific economic mechanisms,
- the legal system and the organizational structures of the national economy,
- the societal conditions and the awareness of the economic reform.

A. Operations in the Economic Sphere

1. The producer price reform made national prices of raw and other materials significantly more realistic, bringing them more into line with world prices. The reform gave rise to a process of restoring the proper relationship between outlays and effects in management. However, a wide divergence appeared between official selling prices of raw and other materials and their transactional prices as a result of the adoption of a steeper exchange rate than had been assumed initially. We ought to move toward a phased and systematic elimination of this price deviation by making appropriate changes in official selling prices in order to create bases for making full use of credible cost effectiveness methods in our economy. Our rate of exchange and pricing policy must be subordinated strictly to the implementation of that objective.
2. In the context of new price-setting formulas, the reform of retail prices set the stage for restoring general market stability and impacted on improving the price ratio between food and manufactured goods. Nonetheless, especially with reference to food, disparities between retail prices and production costs continued or began to emerge in many instances. These had to be subsidized from the budget to a large extent. Subsidies have an antimotivational effect on improving economic management and making consumption more realistic, and the granting of subsidies redistributes the national income in ways that are often without social justification. This being the case, we must develop and adopt a long-range government program that limits retail price subsidies to cases that can be justified by higher social interests.
3. The pricing formula we have adopted does not encourage effective management. In many instances, its scope or use have no justification. Watching the way that these categories of regulated prices work, we can see what is needed: broadening their scope for the more important materials and semifinished products and changing pricing formulas to tie prices to transactional prices wherever possible.

4. The way that contract price categories work is especially important in the scheme of the new systemic formulations. They take in the greater part of goods turnover. The continuing imbalance between supply and demand in certain areas especially poses a threat. Some enterprises can take advantage of the situation to post economic gains not justified by the labor invested or economies made. The tax barriers introduced to prevent such occurrences have not always proved to be effective, especially regarding the variation of cost structures in the various subsectors.

In order to counteract this threat, it is indispensable that an even stronger anti-inflationary mechanism be introduced into the financial system of these enterprises in the form of an anti-inflation tax. This mechanism would discourage enterprises from exceeding contract prices, and in the event of their increase, it would correct the financial gain, bringing it down to the level of real effectiveness of the operation. The introduction of such a mechanism would be tied to moderation in the progression of the earnings tax.

5. An analysis of the economic effects of the earnings tax, the fundamental financial regulator, indicates that in practice its fiscal function has overshadowed its motivational function. We ought to change that ratio in favor of markedly increasing the motivational function of the tax. With that in mind, we must do one of two things:

--maintain the progressive character of the tax, while flattening out the scale of progression and moving towards the elimination of manufacturing costs as the basis for determining profitability, or

--replace the progressive tax with a flat-rate tax.

These guidelines for reshaping the earnings tax formula are now undergoing statistical analysis with a view to determining economic and financial effects on the national economy.

6. Especially in light of the changed employment situation, people are variously critical (and justifiably so) of the principle of charging the FAZ against average wage increase. They single out the antimotivational effect that this practice has on reorganizing our way of making use of labor resources.

This practice must be changed with a view to tying it in with enterprise production results and effective management. At the same time, we must assure that in so doing we adhere strictly to accepted norms in the whole area of employment policy.

7. A system of income tax relief is an important means for influencing the economic decisions of enterprises. It accords with the postulates of our economic reform. Currently such relief is given only in the area of export production. Considering the importance of tax relief as a tool, we ought to speed up work on the more comprehensive regulation of this question. Tax relief ought to be used to encourage the attainment of goals set for the economy as a whole, and simultaneously, in a way that prevents its being abused for particularistic gain.

8. Perfecting a financial system demands the definition of categories of losses and unjustified costs. Such a definition permits calculation of income tax on a correct basis and furnishes us with a simple way of getting a handle on costs for less than full use of production assets and other outlays resulting from poor management in an enterprise.

9. The operation of the credit system in conjunction with the principle of self-financing forced the vast majority of enterprises and the national economy as a whole to accept the notion of profitability. However, it must be noted that in many areas, self-financing is not applied to the fullest extent. This is a substantive departure from reform guidelines. Hence, we must strive to limit significantly the area not covered by self-financing.

We must also look at credit capabilities from a wider perspective that includes not only current profitability but also long-term financial prospects of enterprises.

10. Examination reveals that motivational systems for workforces in enterprises are not producing results. Incentive systems are weak mainly because the wage system is not adjusted according to the fundamental principles of the reform. Binding provisions of the labor law and, particularly, requirements that enterprises abide by the labor code and laws governing collective labor hinder seriously the formulation of an incentive system.

Granting enterprises wide freedom for individual wage differentiation is an indispensable condition for the introduction of factory wage systems likely to foster increased productivity. This means updating provisions of the labor law and fundamentally limiting interference from central planning in the wage systems of enterprises.

11. Practically speaking, glaring discrepancies mark the ground rules in operational programs. Why? Because these programs are both too numerous and too broad. Thus, no central direction is possible as far as implementation is concerned. Further, the possibility for verifying the correctness of the allocation and use of resources is limited. In this connection, we must be able to maintain a check and to set serious limits on the number and scope of operational programs. We must assure that the production they envisage is coordinated systematically with materials procurement organization.

12. In the foreign trade area, we have introduced systemic solutions designed to make effective export economically attractive for enterprises. Included are foreign currency access, tax relief, customs rebates and concessions for making contracts directly with foreign partners. Fine tuning is required to make the system more effective in increasing exports and rationalizing imports.

We ought to increase gradually the level of foreign exchange credit, linking it to export effectiveness, in order to make the role of such credit more stimulating. At the same time, we must aim for a reduction of central control in purchasing and foreign exchange allocation. We must put into effect a policy for credits that yield a quick return and for credits needed for import

purposes in conjunction with specific export contracts. Funding for such a policy would come from economies realized in the foreign currency accounts of the various enterprises. These enterprises will tend to use the foreign exchange available to them conservatively. Interest charged for the use of foreign exchange will strengthen this tendency. On the other hand, enterprises not meeting export and production goals outlined in operational programs would obtain foreign exchange at a special rate determined by competitive bidding. The Bank of Commerce would sell foreign exchange set aside for this purpose from earnings. Gradually, self-financing of exports would be introduced for these enterprises in this way. At the same time, we should move toward a situation where producers in the processing area would use transactional prices as the basis for setting contract prices.

13. The exceptional economic conditions resulting from the crisis necessitated provisional solutions, a turning aside from the normal order. This is especially the case as far as central direction of goods turnover is concerned. For retail trade, central control includes rationing, distribution, and directed selling. For procurement, it includes distribution and obligatory brokerage. These approaches, which were forced upon us by our practical situation, tend to create irrational consumption and artificial demand. Therefore, we must devise and implement a plan for getting away from the administrative direction of goods turnover, and especially, from retail rationing. A starting point for devising such a plan ought to be an in-depth analysis of the relationship between supply and demand according to the objective way that this relationship functions in the marketplace with respect to consumer goods and supplies. Certain market areas are rather well supplied at present. This allows us to move away gradually from restrictions in the area of goods turnover.

14. The area of social benefits, which by the 1970's had increased without respect to our ability to pay for them and which increased again because of the pressure of the past 2 years, seriously limits us in carrying out principles of rational management in enterprises. We must reorient state social policy, subordinating it strictly to state financial capabilities and, therefore, departing from the notion of formulating social policy according to the norms of equity exclusively.

We must also tie the level and scope of providing for social needs in the enterprise to the achievement of production results.

15. The solutions for economic reform are premised on the assumption that the five-year plans are the basis for the direction of the national economy by central authority. Suitable economic instruments, chiefly of an indirect type, ought to be used in verifying that independent enterprises are moving toward goals set forth in the plans. Practically speaking, however, in the current year, short-term plans designed chiefly to accomplish specific, matter-of-fact tasks are the basis for managing the economy. Experience shows that these plans are not very effective. Hence we must greatly step up our efforts toward establishing a system for indirect action focused on the current and long-range production and development of decisions of enterprises. For this purpose, we must use financial and economic instruments.

B. Operations in the Legal and Organizational Sphere

1. The initial phase in the introduction of economic reform closed with the passage of a packet of laws by the PRL Sejm on 26 February 1982. These laws constitute a basic, legal foundation for the new, working principles of the national economy.

However, many areas of socioeconomic life have still not been regulated by law to bring them into line with basic economic reform assumptions. The introduction of systemic solutions of the reform revealed new problem areas requiring careful, legal regulation; for example, enterprise bankruptcies or counter-acting monopolies. With that in mind, we must intensify legislative processes in order to attain once and for all an airtight legal system for our economic reform.

2. The ongoing review of legal provisions directed toward adapting the law to the new system should be continued. Irrespective of the work done thus far, which has led to the abrogation of a large number of laws that had lost their material bases for imposing obligations or did not fit in the new hierarchy of legal sources, we must exercise strict supervision of mandatory law to make certain that it is both comprehensive and in accord with the newly-created system of laws.

We should likewise increase control over so-called ministerial lawmaking. An increase in the power of registering ministerial regulations with the minister of justice is indicated here. These regulations would become binding when entered into the registry.

3. In the actions of the central and local administration, there are many transgressions against the "new" mandatory law that defines the rights of founding organs and the admissible legal means of acting upon economic organizational units. In addition to the training campaign that is being conducted for the purpose of counteracting this situation, the authorized organs of control ought to step up their control of the legality of state administrative actions against economic organizational units.

4. The process adapting the structure and functions of chief and central organs of the state administration to the requirements of economic reform, beginning with the reorganization of sector-subsector ministries, has been stymied. This refers in particular to the rebuilding of the functional ministries and the Planning Commission. If this situation continues, it will have a negative impact upon the creation of a new system of national economic management at the central level. Thus it is indispensable that the process of rebuilding the central level of management be restructured by defining a new role and scope of action for the functional ministries and the Planning Commission; it is also imperative that the principles and tools of operation of the sector-subsector ministries be worked out in detail.

5. The change in the structure management of the national economy based upon the elimination of the intermediate level has essentially been implemented.

At the same time, the process of creating new organizational structures has been initiated. A preliminary assessment of this process demonstrates the unfavorable trends that developed during the process of the creation and operation of associations. In line with this, principles of operation should be prepared to counteract monopolistic practices and tendencies to divide domestic purchasing markets, pricing agreements and mediocrity where efficiency is concerned. The adoption of anti-monopolistic legislation should serve this purpose, as should the inclusion of the workforce self-government of enterprises into the process of developing new structures. Decisions concerning the entrance of enterprises into voluntary associations should be verified by the self-government organs resuming their activity.

6. The provisions of the law on state enterprises unequivocally defined the principles of selection of the management cadre of enterprises and associations. They are based on the principles of competition. During the first stage of the reform, this formula was used very little in the process of nominating candidates for the position of director. This contradicts the mandatory legislation and undermines the credibility of reform activities. For this reason, the principle of competitive managerial cadre selection should be strictly observed.

7. New organizational-legal forms should be developed to serve as a basis for activating production throughout society. The economic activity of youth organizations must be encouraged; they must be authorized to create and take part in trade-production companies. The legal bases must be created for developing "small forms" of production activity of employee teams "after work hours," based upon the use of the machinery and equipments of their own plants.

C. Operations in the Social Sphere

1. The principle of self-government is one of the basic tenets of the economic reform. The martial law restrictions suspended the process of the development of the workforce self-government. This seriously limited the introduction of the economic reform, since self-government organs are also enterprise organs that, in accordance with the assumptions, fulfill many important functions under the new system of operation of the national economy.

Decisions to resume workforce self-government activity in enterprises help to broaden the social reform base. In recent weeks, the process of reviving the work of self-governing bodies has been stepped up significantly. Nonetheless, the number of enterprises with currently operative self-governments is still small by comparison with the total number of state enterprises. Thus, intensive administrative and political efforts must be directed toward making it possible for the implementation of enterprise self-governing bodies to be accelerated.

2. Self-government organs have broad powers of joint decisionmaking on matters of enterprise and workforce issues. Polls reveal that the level of familiarity with legal-economic questions indispensable to joint enterprise management is not always satisfactory. For this reason, a comprehensive training program for self-government operatives must be prepared and put into practice.

3. The effectiveness and the rate of implementation of the new systemic principles depend in great part upon the attitude and activism of enterprise managerial cadres.

Polls show that the level of familiarity of enterprise managerial cadres with the assumptions and mechanism of economic reform is widely divergent. While there are many examples of the exemplary adaptation of the managerial cadre to the new principles and conditions of management, there are also negative phenomena in this regard. These emanate primarily from the lack of skill in learning and practically applying the reform principles, problems "getting one's bearings" in the new situation and even unwillingness with regard to the reform itself.

Keeping this in mind, we must facilitate the development of the independence and activism of the managerial cadre. This should be achieved through the improvement of the cadre training system, particularly in the area of management skills within the operation of new enterprise organs. We should also aim to curb the officiousness of the economic administration when intervening in enterprise affairs and to popularize positive examples of an active position among representatives of the managerial cadre. The introduction of systematic tests of familiarity with reform principles among the managerial cadre should be an important element of this process.

4. The success of the economic reform rests upon society's acceptance of the systemic solutions that are put into practice. In recent months the reports of society's attitude to the reform have been unfavorable. This is due to the fact that the reform has been implemented under conditions of a very great decline in the living standard of society. This leads society to conclude that the decline in the living standard was the result of the reform while in fact it is a consequence of the crisis. Hence, in order to reach society with an objective assessment of the systemic solutions that have been adopted, we must disseminate honest, well-documented information on the subject of the reform.

5. The economic reform, its purposes and principles demand radical transformations in the awareness of social groups and individuals. This is especially true with reference to the attitude to the state's role in the system of economic management, the attitude to work, the place of work, questions of social protection and the notion of social justice. It is urgently necessary that we develop a system of influencing society and individuals that aspires toward the development of new, more active and enterprising attitudes. Held in common, such attitudes will help greatly to speed up the rebuilding of the operation of the state, society and the economy.

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POLAND

PROBLEMS IN AIR TRANSPORT INDUSTRY AIRED

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[Article by Andrzej Glass: "Situation and Problems of Polish Air Transport"]

[Text] The 1971-1980 Decade and LOT Polish Airline

The years 1971-1980 were a period of rapid growth of LOT:

- the length of regular lines doubled from 41,000 to 93,000 km;
- the number of airports served by LOT increased to 12 from 10 in this country and to 44 from 30 abroad;
- annual passenger volume increased 25 percent on domestic lines (to 791,000 from 643,000) and by a factor of 3 on foreign lines (to 1,037,000 from 325,000);
- average annual growth rate of traffic was 17 percent;
- passenger traffic was 65.7 percent of capacity compared with worldwide average of 63 percent;
- Poland's share in international air transport increased from 0.22 to 0.36 percent;
- LOT's profits in 1971 were 300 million zlotys whereas in 1981 they reached 2.7 billion zlotys, that is, increased by a factor of 9;
- during the years 1971-1980 3 billion zlotys was invested in LOT, 4.4 billion was invested in airport and traffic infrastructure, and 4.4 billion in airport repairs. During that period the surplus of income over expenditures (including investments) amounted to 5.6 billion zlotys in civil aviation.

This was a period of rapid growth of the activities of LOT Polish Airlines.

Years 1980 and 1981

The years 1980 and 1981 were unfavorable to international air transport. World air traffic in 1980 increased only 3 percent (compared with a 13 percent increase in 1979) and in 1981 0.5 percent, while passenger traffic declined from 748 to 728

million. In Poland the difficult economic situation caused a decline in both domestic and foreign traffic. In 1980 compared with 1979 the number of passengers carried by LOT decreased to 791,000 from 862,000 (by 71,000 or 8.2 percent) on domestic lines and to 1,037,000 from 1,131,000 (by 94,000 or 8.3 percent) on foreign lines, or altogether from 1,993,000 to 1,828,000 million (by 165,000 or 8.2 percent). At the same time, air cargo volume increased to 17,235 from 16,930 tons while the number of ton-kilometers decreased slightly to 237 from 263 million ton-kilometers, that is, only 2.3 percent. Fleet utilization increased to 1,670 from 1,648 hours per aircraft annually, but labor productivity dropped to 43,800 from 47,000 ton-kilometers per employee.

In 1981, owing to the attendant decline in domestic production and hence also a slowdown of economic life, traffic further declined. The suspension of air traffic during the last three weeks of December of last year had moreover reduced traffic volume by an additional 4 percent, more or less. The results in 1981 compared with 1980 were as follows: the number of passengers carried dropped to 1,711,000 from 1,828,000 (6.6 percent), of which to 998,000 from 1,037,000 on foreign lines and to 713,000 from 791,000 (11 percent) on domestic lines. Cargo volume dropped 32 percent on foreign flights (to 8,641 from 10,813 tons) and 43 percent on domestic flights (to 3,062 from 6,422 tons). As a result, the number of ton-kilometers for LOT decreased to 236 million from 257 million ton-kilometers, i.e. 8.2 percent, of which 7.6 percent for foreign flights and 14 percent for domestic flights. Fleet utilization decreased to 1,353 from 1,670 hours per aircraft and labor productivity to 39,400 from 43,800 ton-kilometers per employee, owing to the decline in traffic and increase in employment. At the same time, seat capacity utilization increased to 78 percent. During 1981 flights to Baghdad, Benghazi, Leningrad, Kiev and Bydgoszcz were suspended. In 1981 gross income was 16 billion zlotys and net income, 2.7 billion, that is the annual balance was positive: 30 percent of the passengers paid with foreign exchange for their tickets and 70 percent with zlotys.

Situation in 1982 or a Survival Program

The situation of Polish air transport in 1982 is fundamentally different from that in the previous years. We will attempt to assess the principal factors in that situation.

The suspension of LOT's traffic activities as well as of the flights of foreign airlines to Poland on December 13 of last year necessitated renegotiating in January and February of this year aviation agreements with other countries, since, as a rule, air transport operates on the principle of reciprocity. During the first half of this year flights to 25 airports were resumed (in 1981 there had been flights to 45 airports). Certain lines will not be restored owing to unprofitability (e.g. the Far Eastern route). Of the domestic airports, eight were reopened.

The traffic demand has dropped drastically. In the first 4 months of this year it amounted to 40 percent of the traffic volume in a like period last year. This is best illustrated by the figures on passenger traffic:

Month	January	February	March	April
Number of passengers:				
--Foreign traffic	10,545	13,168	19,858	23,487
--Domestic traffic	6,987	9,718	15,855	29,738
Total	17,532	24,886	35,713	53,225

The anticipated traffic volume for 1982 as a whole is 50 percent of last year's volume, that is, approximately 700,000 to 750,000 passengers. The structure of passenger traffic, too, has changed. The number of private passengers carried is expected to lie at 15 percent of last year's level, owing to passport restrictions. The number of official passengers carried is expected to lie at 50 percent of last year's level. The restrictions placed on the conveyance of Polish passengers resulted in an increase in foreign-exchange passengers to nearly 50 percent of the total. Owing to the decline in passenger traffic the anticipated gross income (not net income) should amount to 6 billion zlotys.

The decline in traffic volume has resulted in that LOT now has a surplus of aircraft and skilled personnel which are not being fully utilized.

The new situation has posed to LOT Polish Airlines as the paramount task the problem of surviving, that is, of maintaining its transport potential, i.e. equipment, expert personnel and facilities while at the same time meeting the economic requirements ensuing from the country's situation and the goal of self-financing. Balancing all of these factors requires a well-planned program and various actions.

Retention of Skilled Personnel

In view of the crisis situation in worldwide transport, it has not been found possible, despite the attempts made, to obtain any major orders for lease of LOT aircraft together with their crews to perform tasks outside the country's boundaries. (For 1.5 months one An-24 used to fly in France for Air Inter, earning US\$1.5 million.) This is also due to the relatively uneconomical equipment (with a high fuel consumption), which cannot withstand competition in face of offers by carriers operating more modern aircraft.

There also exist no chances for focusing on the transportation of cargo from Poland, since the demand for Polish goods has dropped and the cargo routes are extremely dispersed and, what is more, the import and export directions differ.

The growth of traffic on foreign routes is subject to certain limitations, given the present demand. There is a chance for reopening routes to at least five countries. Only tourist charter flights to Bulgaria and Romania as well as transport of sailors are anticipated. Unless there is a rise in tourism (both from abroad and from Poland) and exports, the transport demand will not increase.

The growth of domestic air transport will undoubtedly hinge on its competitiveness with rail transport. The average rate of growth in rail rates may result in a higher demand for air transport provided that air rates will not increase or will increase at a slower pace than rail rates.

LOT Polish Airlines has already cut in half the personnel of many of its foreign offices. But shifts in the deployment of experts also are needed in order not to lose individuals whose training lasted years and cost hundreds of thousands of zlotys.

During the first half of this year LOT reduced its personnel by 10 percent (it had 6,000 employees) by discharging unskilled employees.

The Problem of Equipment

LOT's equipment still lags behind by one generation of aircraft compared with its competitors. Discussions conducted last year on the question of what aircraft are to be acquired for LOT are no longer topical for various reasons. First, at present LOT has more aircraft than it actually needs. Secondly, in the current international situation, while Poland is unable to avail itself of Western credit, economic interest in American aircraft is unrealistic. Even if such an acquisition were to be made, it does not appear that such aircraft could at present earn the foreign exchange needed to repay such credit. What is more, difficulties in acquiring spare parts and repair could immobilize such aircraft. Thus, last year's discussion is no longer pertinent.

The actual situation necessitated attempts to solve the problem of surplus aircraft. The mothballing of unused aircraft also is quite expensive. Hence, LOT Polish Airlines has undertaken attempts to sell its oldest and least economical aircraft. Aid came from the Soviet Union which, understanding our economic situation, accepted a proposal advantageous chiefly to us and bought back in May of this year four (that is, all) Tu-134 aircraft (we have kept only the Tu-134A) as well as two Il-62's. Attempts are under way to sell an additional four Il-62's. LOT would then retain only the more economical Il-62M's, which burn 1 ton of fuel less per hour. In this way the crisis is indirectly contributing to a modernization of LOT's equipment. The fleet of LOT has thus decreased to 41 from 47 aircraft. In addition to the aircraft types named above, LOT operates An-24 and Il-18 aircraft. The funds derived from the sales are to be reserved for the acquisition of new aircraft, probably the Yak-42 in the modification having a longer cruising radius. Given the current decline in traffic volume the issue of acquiring Il-86 350-seat aircraft is rather to be postponed. Most probably, the modification with longer cruising radius will be in the greatest demand.

The discussions held about equipment in the last few years also touched upon the problem of acquiring cargo aircraft. However, the small scale of cargo traffic and other aforementioned problems as well as the current decline in that traffic (much deeper than in passenger traffic) do not justify the acquisition of these aircraft. In the most favorable situation just one cargo aircraft could be usefully employed, but considerations of maintenance and repair, etc. make it difficult to open routes served by fewer than two cargo aircraft. Hence, in the immediate future such an acquisition would be unprofitable. LOT is using Il-18 aircraft to transport cargo and it has converted two Il-62's to the passengers-plus-cargo modification.

Facility Utilization

One possibility of maintaining full-capacity facilities (including repair facilities) lies in procuring outside orders (i.e. not only for LOT's own needs). The advantages are threefold: profits for the enterprise as a whole, the retention of skilled personnel, and the retention of the full capacity of the facilities. The recent organization of the repair of An-24 aircraft by LOT cannot serve this purpose, because foreign demand does not exceed two such aircraft annually. However, LOT has received orders for repairs of An-2 aircraft and their engines. LOT repaired these engines, because it operated Li-2 aircraft and the repair of the An-2 is easier than that of the Li-2, of which 100 repairs have been performed by LOT. In addition, LOT will

paint aircraft for foreign enterprises (Malev, Balkan). Many orders cannot be filled owing to lack of materials. LOT could have accepted an order for painting busses but it lacks paints. Orders for large quantities of high-pressure conduits exist.

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The growth of the national economy will require both foreign and domestic air transport. The restoration of that transport will be not only difficult but time-consuming and costly unless the skilled personnel and equipment are retained. Such a valuable asset should not be dissipated. Hence, survival is the fundamental goal of LOT.

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2600/102

RESOURCE ECONOMY NECESSARY TO LOWER PRODUCTION COSTS

Bucharest REVISTA ECONOMICA in Romanian No 42, 22 Oct 82 pp 7-8

[Article by G. Obreja]

[Text] Concern for better mobilization and utilization of all the productive potential of the economy and, specifically, for best possible management of the country's material resources has been and continues to be an essential component of our party and state policy of more rapidly increasing the national income. At the recent plenary session of the CC of the RCP it was assessed that in the first 2 years of this five-year plan major achievements were obtained in terms of greater development of the domestic base of raw materials and energy, higher level of utilization of material resources, greater reduction of fuel and energy consumption rates, intensification of the activity of product standardization, with each of these factors providing a decisive input into the smooth unfolding of production activity, into the rise of profitability and accumulations. Moreover, heavy emphasis was placed on recovery and reuse of raw materials and supplies, reconditioning of some spare parts and sub-assemblies, by and large on increasing output and improving the indices of utilization of all raw materials and supplies.

Economic practice shows that a more rapid increase in the national income is directly tied also to the overall saving of material resources, to lowering of production costs. At the level of the Romanian economy the significance of reducing production expenditure of materials is reflected in a few statistical data:

While at the level of the year 1981 the reduction by one percent in the volume of materials expenditure in the social product accounted for about 14 billion lei, in the year 1982 this reduction accounts for a national income additional rise of more than 15 billion lei, and in 1983, 16 billion lei.

Identification and utilization of every resource of economy in material production costs continues to be one of the secure avenues that can lead to significant savings in every economic unit, that can help more to maximize profits and profitability, to form local resources and constitute monetary funds, to increase the national income. Completion of the tasks relating to resource economy by each enterprise, central, ministry and people's council predominantly mandates strict sizing, as planned, of total and materials production costs. It is anticipated that next year these production costs will be reduced in industry 12.5% versus the 1982 level for each 1000 lei marketable output, in agriculture by 5 lei for each 1000 lei marketable

output, in construction-assembly (contracting) by 7.8 lei for each 1000 lei production, and in transportation by 8.7 lei for each 1000 lei incomes. The interest of the national economy, of each individual unit require that every effort be made to attain and exceed these reduction levels in the third year of the five-year plan. Such an objective is attainable and exceedable if we take into consideration the fact that the economic units still have reserves that can and must be utilized to permit the reduction, over and above plan provisions, of production costs, specifically of materials costs.

Material Balance of the Plan

Before surveying some of the chief guidelines directly tied to lowering production costs we must even briefly review a few matters pertaining to the context in which the ensuring of the material balance is conceived in the setup of the 1983 plan. It must be stated that in this regard provisions have been made for radical steps to tap and make best use, on an overall scale, of all the material resources of the economy, to lower consumption rates for materials and energy, to do away with any sources of loss and waste.

Proceeding from the detailed examination of the stage reached in this area, the estimation of some deficiencies that are still found in the mobilization and utilization of material resources, attention is paid to enhancing concern for strict economy of every unit of material or fuel, of each kilowatt-hour of electric energy, concomitantly with discovery and utilization of new material resources. Consequently, one of the basic principles of ensuring the material base of the plan for the next year involves drawing into the economic circuit new resources of raw materials and fuel, including those with poorer contents, so that we may assure a greater involvement of the soil and subsoil riches in meeting the economy's needs for raw materials and supplies. Complete inventory of mineral resources and also of fuel and energy resources, use of new mining and processing techniques, materialization of the program worked out in these fields of endeavor have been and continue to be principal paths for ensuring material resources, resources that are of outstanding importance in maintaining the planned growth rates.

In the process for ensuring the material resources, energy resources are prominent and play a decisive role. Consequently, projections involve the greater development of energy resources in this country, so that more than 90% of the needs for fuel and energy may be met from domestic resources. This requires firm and prompt implementation of all the measures regarding the completion of the program developed in this area, simultaneously with the lowering of all consumption rates for fuel and energy, the elimination of any loss in the process of production and distribution of energy.

Moreover, the plan provides for heavy emphasis on superior utilization of material resources in the production process, on management and saving of these resources, on obtaining, for each unit of raw material, of the greatest possible newly created production and value.

That is why at the plenary session of the CC of the RCP held at the beginning of last October, the party secretary general dwelt on ensuring and utilizing the economy's material resources and pointed out that it is necessary to understand

that the matter of assuring supplies of materials for the development of socioeconomic activity must be handled by placing special emphasis on domestic sources, on economy, on reuse of materials. Hence, it is necessary to daily monitor the implementation of objectives pertaining to ensure fuel, energy and raw materials, fulfillment of measures to lower consumption levels, to continuously upgrade consumption standards.

Upgrading Consumption Standards

Extending the scientific standardization of consumption rates for raw materials and supplies and supervising the observance of these rates have been and continue to be paramount factors that directly impact on the level of materials expenditure of production. Recently special attention has been paid to expanding the sphere of covering consumption by physical standards. Conditions have been created for sound substantiation of plan provisions by proceeding from the physical structure of production and consumption rates per product and consumption rates were itemized not only at plant level but also individually, at section, shop and job levels.

Nevertheless, in the area of meeting planned consumption levels some shortcomings are still found in economic units, that have resulted in extra consumption levels for some basic raw materials and supplies. The analysis of the causes that generated these extra consumption levels indicated that there is insufficient concern in some enterprises, centrals and ministries for resolving the complex problems which underlie the lowering of these consumption rates: structural and technological modernization of products, rigid observance of technical discipline, improvement of product quality and elimination of wastes, expanded use of substitutes and the like.

The requirements stemming from the need to lower production costs involve following of and strict integration into the planned consumption rates. Consequently, it is necessary to step up not only the efforts to establish technically and economically substantiated consumption rates but also the efforts to reinforce supervision over the way in which standards are observed. Hence, it is imperative that the debating and decision-making bodies, the committees and councils of working people systematically examine the way in which these standards are met and prevent any exceeding. Because, with good reason, one may ask: last year and during this year was it not possible to more significantly lower production costs had it not been for some extra consumption levels, above plan provisions, for many basic products? Proceeding from the interests of the overall economy, of each economic unit individually, such a situation must not reoccur in the next year, because all economic units must strictly follow the consumption standards planned.

Greater attention must also be paid to close examination of the current levels of some relative consumption rates, for the purpose of finding new ways to further lower them per product unit. The fact that now in our industry's production costs the volume of raw materials, supplies, fuel and energy continues to account for about 75% requires the enterprises, centrals and ministries to broaden the sphere of their investigations in order to identify new means for lowering current consumption rates.

Innovation, Modernization of Production and Technologies

In the complex process that focuses on better utilization of material resources, a factor with an efficient input into lowering production costs involves greater

modernization of products, introduction of new production techniques. That is why the 1983 plan provisions incorporate tasks that finalize in production many research objectives focusing on arrangements for the production of new materials and items to provide a greater input into saving material resources and specifically fuel and energy, into meeting the needs for various raw materials in short supply, and also into reducing some imports.

An important role in completing these tasks can be played by research and design institutes which have great possibilities for formulating adequate proposals designed to lower relative consumption rates, diminish the weight of products and structures, and so forth. In this context it is necessary to monitor the full implementation of product innovation and modernization plans. Moreover, it is necessary to eliminate the situations where excessive amounts of raw materials and supplies are used for turning out some products, because the production process still contains some procedures that prove to be obsolete and outdated. The reason for this is that some direct leaders of work teams still show less receptivity in terms of promotion of new technical approaches and procedures, and also, that often the organization of production flows and some points of production is not in tune with the requirements of promoting new developments.

In creating the best possible conditions for implementation of programs for innovation of products and technologies with lower materials consumption rates and costs, in addition to eliminating the shortcomings pointed out, efforts must also be focused on upgrading technicomaterial supplies, on on-schedule completion of the investment projects designed to accelerate the innovation of production. It is a matter of achieving smooth supplies with contracted for materials, but also of greater creativity so that the domestically available raw materials may yield new products with highly competitive performance.

In 1983 the level of utilization of raw materials, supplies, fuel and energy is expected to increase, versus 1982, 7.4% -- calculated on the basis of marketable output, and 10.3% -- calculated on the basis of net output, increases that are far higher than the average for the overall industry being anticipated in the chemical, machine building and metallurgical industries.

Because it has been found that in a number of cases planned indices for superior utilization of raw materials and supplies are not attained, firmer efforts are needed in this area, since any lag in terms of arrangement for the production of new materials and products and better utilization adversely impacts the foreign payment balance, also requiring extra foreign currency resources. Therefore, special attention must be paid to fulfillment and overfulfillment of the planned tasks in this area, as a basic condition for obtaining the highest possible value from each ton of raw material processed.

Important reserves for lowering production costs involve recovery, reconditioning and reuse of some raw materials and supplies from the production and consumption processes. Consequently, it is expected that next year this will provide another 5-8% of the necessary amount of raw materials and supplies. That is why all economic units must intensify their efforts to maximize the recovery and utilization of any raw materials and supplies which can be reused, thus meeting some needs for supplies and lowering production costs.

In order for this need to be met, the available potential in enterprises, centrals, ministries, and research and design institutes needs to be more broadly mobilized for the development of effective procedures of recycling the recovered resources, for accelerated connection to the productive circuit of the new investment facilities destined for reconditioning and reuse of materials, of used subassemblies and parts, and also for the promotion of organizational approaches designed to materialize this circuit. By promoting such projects it will be possible to discover and utilize new reserves in the area of lowering relative consumption rates, concomitantly with obtaining extra outputs and profits.

On the fulfillment and overfulfillment of the tasks in the area of lowering production costs largely depends the attainment of the 5% rise in the national income for the next year, respectively of the source for maintaining the economic growth, for ensuring the resources for the planned improvement in the standard of living of the population.

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ROMANIA

SHORTCOMINGS OF NET PRODUCTION INDICATOR POINTED OUT

Bucharest REVISTA ECONOMICA in Romanian No 42, 22 Oct 82 p 11

[Article by Laurentiu Astefanei, inspector at the Iasi County Branch of the National Bank]

[Text] The practice of the implementation of the new economic-financial mechanism, surveyed in light of the central indicator -- net production -- has proved the advantages of this indicator versus overall production. However, if we plan to analyze the manner of utilizing net production in sizing the fund for remuneration of work we note that it does not provide adequate ingredients for correct sizing -- at least in some branches -- of this fund.

In the first place we focus on the fact that, although net production far more faithfully reflects the effort of the enterprise, however, because of the method of calculation, as difference between the overall production and materials expenditure, the result not always is very close to reality. For instance, in the machine building industry, the overall production for the calculation of net production also incorporates the unfinished production as a component. In calculating the relating net production, being applied -- to the entire volume of overall production -- is the same volume of materials expenditure, even though the unfinished production at a given point in time, let us say on the 30th of the month, also incorporates the materials included in production in the last decade, that have a low processing level and, consequently, for these the proportion of materials expenditure is far higher than that of the planned amount, applied for the total. Hence, by application of the planned volume, there is an artificial assessment of net production by the part of expenditure of unperformed live labor and the nonrealized accumulations relating to the materials with a low processing level from the unfinished production.

Another matter involves the fact that net production does not mobilize to the operative conclusion of the supply-production-marketing cycle, because there are cases when, although net production is realized and the funds for remuneration are assured, production lies in the warehouse, sometimes even for a long period of time. Moreover, net production can be realized and exceeded without having a measurable correspondent in physical production and, consequently, even though (net) production is exceeded, it cannot become merchandise, it does not participate in exchange, it does not satisfy individual consumption needs, on a productive or investment basis, it does

not verify its economic usefulness for which it was created (for example, in industrial construction the same net production can be obtained by construction and provision with equipment of a shop that is to produce immediately and also by partial construction of two or more shops but which do not produce).

For the purpose of meeting current requirements of consumption (of all kinds) net production must be obtained in strict correlation with physical production, with concomitant ensuring of marketing under contracts and also actual delivery in the context of quality. We consider that the indicator sold and paid-for marketable output would satisfy all these requirements, because it represents the final expression of acknowledgement of materialized labor performed in all the above economic processes. This does not mean renouncing net production as an indicator that expresses the individual effort of economic units in creating the national income.

According to the views of some experts the utilization of the indicator sold and paid-for marketable output in the recalculation of the fund for remuneration of work could not be applied permanently because of the lack of rhythmicity in collections sometimes generated by objective causes for the collector (arrear payments at the user of deliveries, lack of financing at the users of investments, improper organization and unfolding of clearings in some enterprises, and so on). We believe that the above-mentioned argument loses its value in the context of resort, as a possibility in objective cases, to utilization of the system employed in the situation of improper exceedings. For instance, we even have in mind the possibility of enhancement of the powers of ministries and centrals in approval of improper exceedings (at present they are 2% and respectively 1% of the quarterly planned fund for remuneration). This makes it possible to resolve the difficulties that crop up because of lack of rhythmicity in collections.

Assignment of the central role to the indicator sold and paid-for marketable output in recalculation of the fund for remuneration of work would, in our view, enhance the concerns of enterprise managerial bodies in realization of marketable output and in this manner increase the possibilities for ensuring payment capacity; chain blocking and arrear payments would involve the tendency of decline and the interest paid by units and the penalties stipulated by law -- both for incapacity of payment -- would diminish in favor of accumulations, of formation of planned funds from profits.

Another benefit of this indicator is its stability as plan indicator versus net production. If the newly created value can be modified as plan in execution whenever there is a matter of a change in the volume of production, redirection of contracts, resizing of overall production for calculation of net production, change in the variation of reserves for unfinished production from one period to another (difficult to quantify and involving great approximations), and the like, in the case of sold and paid-for marketable output the oscillations are limited to change in the plan of marketable output for which there is the need for precise motivations and analysis of reserves of products at the beginning and end of the period.

If we closely examine the behavior of the indicator on collections, in practice, however, we can show that there is the possibility for units to use some inadvisable procedures for artificial raising of collections, namely, they could perform selling-buying operations for some subassemblies made on the basis of cooperation and this

would permit easy attainment of this indicator. But their level could be limited and monitored so that it can be restricted by law and eliminated. Even in the context of the drawback mentioned above, we assess that the indicator sold and paid-for marketable output in practice presents a number of advantages; under the conditions of its application as basic indicator work would be remunerated only on the basis of verification of social demand of production, and its level would express in terms of value the usefulness of the makers' activity.

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DRAFT LAW ON WORKER PARTICIPATION IN DEVELOPMENT FUND

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[Article by Dr. Gheorghe Raboaca and Dr. Ioan Bratu]

[Tetx] Proceeding from the truth that socialist ownership is a durable basis for continuous improvement of the material and spiritual well-being of the people, our party and state pay special attention to the development of socialist property, by and large, of productive forces, to the utilization of all the national potential at the highest possible level of profitability and efficiency. Prominent among the many measures taken in recent years to achieve these major objectives is the use on an overall scale of the new economic-financial mechanism, introduction of worker participation in profits. Part of the same context is the Draft Law on participation of working people with social shares in the formation of the economic development fund, submitted to public debate.

We believe that two of the multitude of reasons that underlie the introduction of worker participation with social shares in the formation of the economic development fund are prominent because of their dimensions and profound ramifications. On the one hand, we have in mind the fact that this process reflects the direct conditioning between the multilateral and rapid progress of the national wealth, of socialist property and improvement in the people's well-being; in the attainment of such a major objective of decisive importance is the intensive activity of all the people, devoted work, attributes generated by the new status of owner, maker and user which man has acquired in our socialist society. On the other hand, worker participation with social shares in the formation of the economic development fund represents a new, superior form of material incentive which organically blends into the concept of the new economic-financial mechanism for the purpose of promoting in the mass of makers and owners of the means of production a greater interest in the most efficient management of the entire part of socialist property involved in each state economic unit.

Let us dwell at length on these matters. For the purpose of socioeconomic development of this country, the party and state each year appropriate from the national income large amounts of accumulation for the expansion and modernization of the technical-material base in all branches and sectors of activity. Moreover, because of the relatively limited nature of the resources destined for the growth of productive forces and also taking into consideration the significant rise in the incomes of working people in recent years, the need for further maintaining a rapid

rate of development of the Romanian economy, the draft Law offers the possibility of worker participation with social shares in the economic development fund. This is based on free consent. The above-mentioned participation may not exceed, on the whole, 30% of the value of fixed assets of the unit, and the social share owned by each working person may not be greater than 50,000 lei and smaller than 10,000 lei for his or her entire period of activity. The deposits of each working person for the formation of the social share shall be determined in light of the incomes of the depositor and the volume of deposits approved by the general assembly for the plan year. The formation of the social share may proceed in equal or differential installments, monthly or at other intervals, or integrally, depending on the depositor's choice.

Moreover, the new regulatory act provides the opportunity also for executives, workers in the state apparatus, political and mass organizations, in educational and sociocultural institutions to deposit amounts of money as social shares, in an economic unit, receiving, in light of the value of the social share, extra incomes, under the same conditions as the working people in the economic unit involved.

Worker input into the economic development fund has, as the major decisive objective, the increase in the working people's level of active and creative participation in socioeconomic activity. Greater efficiency involves stimulation and broader and intensive utilization of individual initiative. Working people must actively and multilaterally contribute toward maintaining a rapid rate of development of the Romanian economy, turn out a higher and better output, of a better quality, at the lowest possible cost.

In the context of the measures envisioned, working people are urged to take on directly and at a higher degree their responsibilities, to make better use of their capacity as owners of the part of the national wealth entrusted to them for management and development. In this manner, working people in each enterprise will better understand the fact that they are the owners of that enterprise, that they directly bear the responsibility for the maintenance and protection of the socialist property, for its development, that their duty is to obtain, with the means available, the continuous rise in efficiency, in this way ensuring the funds needed for remuneration and profit sharing and also for the development of the technical-material base, for the satisfaction of overall needs of the state.

Worker participation with social shares in the economic development fund -- a new manifestation of worker democracy -- is designed to help to upgrade worker self-management. The resolution of the problems with which economic units are confronted involves not only the existence of an adequate organizational framework but also the improvement in the activity of working people's councils and general assemblies. The enrichment of the contents of these forms of management -- realized also by the provisions of the recent draft law -- is meant to stimulate the creative capacity of working people at the level of the status of socialist owner, of maker and user. Furthermore, worker participation with social shares in the formation of the economic development fund will ensure an even closer tie of each working person with the unit where he or she works by the greater material incentives for the personnel of each unit in obtaining better economic results. In this regard, it is stipulated that working people will receive, at the end of each year, for the sums deposited

as social share, an income determined in light of the total size of the deposit and the way of realization and exceeding of planned profits. Hence, the major, final meaning of participation in the development fund involves the fact that the opportunity is offered for obtaining an extra income in light of the input into the formation of the development fund. For the sums deposited as social shares working people collect at the end of each year an income connected with the profits of the unit. The annual income due to the working people is 6% in the case of the units having achieved the profits planned and up to 8% in the case of having exceeded them, in light of the volume of profits and the profitability obtained, according to the decision of the general assembly of working people. Working people's income is guaranteed at the level of 5% of the amounts deposited as social share also in the case of nonrealization of the profit planned for the unit. The incomes due to working people are ensured from the profits obtained, before any other assignments provided for by law. These incomes are not taxable and are not included in the calculation of earnings of working people in light of which are determined, according to the law, their rights and duties. Moreover, the full return of deposits for the formation of the social share is guaranteed. All this points out the importance of providing quality and efficient work at all levels, that makes it possible for the sums deposited for development to acquire the status of most productive investments.

On the whole, we may state that participation with social shares is another manifestation of working people's capacity as owners, makers and users. It provides them with greater responsibility for the development of the technical-material base, proper organization of production and work, and the right to fully enjoy the results of their activity.

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